UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 1-10726

WINSTAR COMMUNICATIONS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	13-3585278
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

230 Park Ave., Suite 2700, New York, NY 10169
(Address of principal executive offices)

(212) 584-4000
(Registrant's telephone number)

(Former name, former address and former fiscal year end if changed since last report)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

State the number of shares outstanding of each of the issuer's classes of common stock, as of August 12, 1998: 39,606,665

WinStar Communications, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	December 31, 1997	June 30, 1998 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 402,359	$ 574,883
Short term investments	16,903	128,084
Cash, cash equivalents and short term investments	419,262	702,967
Accounts receivable, net of allowance for doubtful accounts	30,328	67,600
Inventories	10,296	13,052
Prepaid expenses and other current assets	8,985	32,967
Net assets of discontinued operations	2,105	3,734
Total current assets	470,976	820,320
Property and equipment, net	284,835	380,149
Investment in equity securities	-	33,852
Licenses, net	174,763	239,300
Intangible assets, net	14,293	114,421
Deferred financing costs	27,463	39,163
Other assets	4,071	13,083
Total assets	$ 976,401	$ 1,640,288
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	$ 386	$ 1,339
Accounts payable and accrued expenses	97,714	91,374
Current portion of capitalized lease obligations	6,848	14,142
Total current liabilities	104,948	106,855
Capitalized lease obligations, less current portion	21,823	39,264
Long-term debt, less current portion	768,469	1,270,726
Other liabilities	-	10,588
Deferred income taxes	24,000	21,500
Total liabilities	919,240	1,448,933
Series C exchangeable redeemable preferred stock	175,553	188,077
Series D senior cumulative convertible redeemable preferred stock	-	200,000
Stockholders' equity (deficit)		
Preferred stock	39	40
Common stock, par value $.01; authorized 200,000 shares, issued and outstanding 34,610 and 39,500, respectively	346	395
Additional paid-in-capital	255,741	383,105
Accumulated deficit	(374,518)	(553,775)
Accumulated other comprehensive loss	-	(26,487)
Total stockholders' deficit	(118,392)	(196,722)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 976,401	$ 1,640,288

See Notes to Condensed Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity (Deficit)
For the Six Months Ended June 30, 1998
(In thousands)
(unaudited)

	Preferred Stock A		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 1997	3,910	$ 39	34,610	$ 346	$ 255,741	$ (374,518)	$ -	(118,392)
Issuances of common stock:								
For stock option exercises and other			1,006	10	12,594			12,604
For acquisitions			2,359	24	78,710			78,734
For investment in equity securities			1,525	15	60,329			60,344
Dividends declared on Series A preferred stock					(2,955)			(2,955)
Dividends on Series C preferred stock					(12,524)			(12,524)
Dividends on Series D preferred stock					(4,006)			(4,006)
Issuances of Series A preferred stock as dividends in kind	118	1			2,954			2,955
Preferred stock issuance costs and other, net					(7,738)			(7,738)
Comprehensive loss:								
Net loss						(179,257)		(179,257)
Unrealized loss on investments in marketable equity securities							(26,487)	(26,487)
								(205,744)
Balances at June 30, 1998	4,028	$ 40	39,500	$ 395	$ 383,105	$ (553,775)	$ (26,487)	$ (196,722)

See Notes to Condensed Consolidated Financial Statements

1. Nature of Business

The Company provides facilities-based voice and broadband data telecommunications services to businesses and other customers in major metropolitan areas in the United States. By utilizing its Wireless Fiber℠ services and a switch-based infrastructure, the Company distinguishes itself as a facilities-based, value-added provider of high-capacity telecommunications services and an attractive alternative to established providers, such as the RBOCs. The Company also utilizes its Wireless Fiber services to provide other telecommunications offerings, including Internet, ATM and frame relay services. The Company creates and/or acquires rights to and distributes information and entertainment content as a complement to its telecommunications operations. The Company also operates a nonstrategic consumer products company, which is treated as a discontinued operation in this report.

To capitalize on opportunities in the telecommunications industry, the Company is pursuing a rapid expansion of its telecommunications services, which will require significant amounts of capital to finance capital expenditures and anticipated operating losses. The Company may elect to slow the speed or narrow the focus of this expansion in the event it is unable to raise sufficient amounts of capital on acceptable terms.

2. Basis of Presentation

The condensed consolidated financial statements presented herein include the accounts of WinStar Communications, Inc. and its subsidiaries (collectively, "WinStar" or the "Company"). All material inter-company transactions and accounts have been eliminated in consolidation. The accounts have been prepared by the Company without audit. The foregoing statements contain all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of the Company's management, necessary to present fairly the financial position of the Company as of June 30, 1998, the statements of operations for the three and six months ended June 30, 1997 and 1998, the statements of cash flows for the six months ended June 30, 1997 and 1998 and the statement of stockholders' equity for the six months ended June 30, 1998.

Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997. The unaudited financial statements and related footnotes for the three and six month periods ended June 30, 1997 reflect certain reclassifications such that they conform to the current period presentation.

The results of operations for the three and six months ended June 30, 1998 are not necessarily indicative of the results of operations for the year ending December 31, 1998.

Wireless Fiber℠ is a service mark of WinStar Communications, Inc.

occurred on the indicated dates, nor should it be taken as indicative of future results of operations.

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	1997	1998	1997	1998
Operating Revenues	$41,453	$57,263	$78,836	$108,471
Net Loss applicable to common stockholders	(83,557)	(105,585)	(145,698)	(199,144)
Basic and diluted loss per share	$ (2.53)	$ (2.77)	$ (4.44)	$ (5.38)

6. Issuance of Cumulative Convertible Preferred Stock

In March 1998, the Company sold 4,000,000 shares of Series D 7% senior cumulative convertible preferred stock ("Convertible Preferred Stock") in a private placement for aggregate gross proceeds of $200 million. The preferred stock earns a 7% cumulative annual dividend, payable quarterly (commencing on September 15, 1998) in (i) cash or, at the Company's election, (ii) through the issuance of a number of shares of the Company's common stock equal to the dividend amount divided by the discounted current market value of the common stock (as defined), at the Company's option. The Company is currently prohibited from paying such dividends in cash under the terms of its outstanding indentures.

The Convertible Preferred Stock is convertible at the option of the holder at any time after the issue date, into shares of the Company's common stock at a conversion price of $49.61 per share of common stock.

The Convertible Preferred Stock is redeemable at the option of the Company after March 20, 2001, in whole or in part, at defined redemption prices, payable in cash plus accumulated and unpaid dividends, if any. The terms of the Company's outstanding indentures currently prohibit any such redemption prior to the repayment of the debt issued under the indenture. The Convertible Preferred Stock is mandatorily redeemable on March 15, 2010 at a redemption price of $50, payable in cash, per share plus accrued and unpaid dividends.

The Convertible Preferred Stock, with respect to dividend rights and rights on liquidation, winding up and dissolution, ranks (i) senior to all classes of common stock and to the Series A Preferred Stock of the Company and (ii) on a parity with the Series C Preferred Stock of the Company.

The Company filed a shelf registration (which was declared effective in June 1998) with the Securities and Exchange Commission with respect to resales of the Convertible Preferred Stock and the common stock which may be issued on the conversion thereof or as dividends thereon.

WEC and WEC II have no independent operations other than to purchase Designated Equipment and to lease this equipment to the Company and its other telecommunications affiliates. It is therefore unlikely, in the opinion of management, that WEC or WEC II will generate sufficient income, after the payment of interest on the WEC and WEC II Notes, to pay dividends or make other distributions to the Company.

Summary financial information of WEC and WEC II, which are included in the condensed consolidated financial statements of the Company, are as follows (in thousands):

Balance sheet information at June 30, 1998 is as follows:

	WEC	WEC II
Current assets	$ 87,732	$ 48,486
Long term assets	134,378	2,752
Current liabilities	(40,264)	(4,216)
Long term liabilities	(200,000)	(50,000)
Stockholders' deficit	$(18,154)	$ (2,978)

Statements of operations information for WEC for the three and six months ended June 30, 1998, the three months ended June 30, 1997 and the period from March 13, 1997 (inception) through June 30, 1997, and for WEC II for the three and six months ended June 30, 1998, are as follows (in thousands):

	WEC				WEC II	
	Three Months Ended June 30, 1997	Three Months ended June 30, 1998	Period from March 13, 1997 (Inception) to June 30, 1997	Six Months Ended June 30, 1998	Three Months Ended June 30, 1998	Six Months Ended June 30, 1998
Rental revenues from other WinStar subsidiaries	$ -	$ 502	$ -	$ 1,014	$ -	$ -
Interest income from other WinStar subsidiaries	-	828	-	1,692	$ -	$ -
Interest income - investments	2,595	906	2,986	2,448	879	1,525
Selling, general and administrative expenses	-	(597)	-	(1,639)	-	-
Interest expense	(5,617)	(5,751)	(6,450)	(11,496)	(1,563)	(3,125)
Net loss	$ (3,022)	$ (4,112)	$ (3,464)	$ (7,981)	$ (684)	$ (1,600)

Net assets of the discontinued operations of Global Products at December 31, 1997 and June 30, 1998 are composed of the following (in thousands of dollars):

	December 31, 1997	June 30, 1998
Assets:		
Accounts Receivable, net	$ 4,383	$ 790
Inventories	4,663	5,127
Other Assets	1,268	466
Total assets	10,314	6,383
Liabilities:		
Current Liabilities	3,570	4,041
Other Liabilities	9,951	4,554
Total liabilities	13,521	8,595
Net deficit	$ (3,207)	$(2,212)

10. Marketable Securities

On June 21, 1998, the Company purchased 12.9% of the outstanding common stock of Advanced Radio Telecom Corp. ("ART") and other equity securities from private investors. The Company issued one share of its common stock in exchange for every 2.2 shares of ART purchased. The conversion ratio results in a purchase price of $17.90 per ART share based on the Company's closing stock price on the date the transaction was closed. The Company issued approximately 1,525,000 restricted common shares in connection with the transaction and received approximately 3,314,000 common shares of ART and certain other unrelated assets. The marketable securities acquired are accounted for as "Available for Sale Securities" in accordance with Statement of Financial Accounting Standards No. 115. The Company has recorded an "other comprehensive loss" (representing unrealized losses on these securities) of $26,487,000 in the Statement of Shareholders' Equity.

11. New Accounting Pronouncements

The FASB released Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of An Enterprise and Related Information"("SFAS No.131"), requiring that all public businesses report financial and descriptive information about their reportable operating segments. The Company will implement SFAS No. 131 in its 1998 annual report on Form 10K, as required.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

The Company provides facilities-based voice and broadband data telecommunications services to businesses and other customers in major metropolitan areas in the United States. By utilizing its Wireless Fiber℠ services and a switch-based infrastructure, the Company distinguishes itself as a facilities-based, value-added provider of high-capacity telecommunications services and an attractive alternative to established providers, such as the RBOCs. The Company also utilizes its Wireless Fiber services to provide other telecommunications offerings, including Internet, ATM and frame relay services. The Company acquires rights to and distributes information services and entertainment content as a complement to its telecommunications operations. The Company also operates a nonstrategic consumer products company, which is treated as a discontinued operation in this report.

During the first quarter of 1998 the Company completed its acquisition of the assets of MidCom Communications, Inc., a national provider of long distance voice and frame relay data telecommunications services, primarily to small and medium-sized businesses nationally.

The Company also acquired GoodNet, a rapidly growing Tier I Internet and ATM backbone provider. Through its national ATM network, GoodNet provides Internet access and high capacity data services to high bandwidth users.

In connection with the Company's rollout of its local telecommunications services, the Company also provides business information services to its CLEC customers. These services are marketed directly to end users and through the Company's direct sales force.

Cost of services and products increased by $30.3 million, or 190.3%, for the three months ended June 30, 1998, to $46.2 million, from $15.9 million, for the three months ended June 30, 1997. As a percentage of revenues, cost of services and products in the quarter ended June 30, 1998 was 80.6%, compared with 97.4% in the quarter ended June 30, 1997, and 90.1% for the quarter ended March 31, 1998. This decrease in the cost of revenue percentage is the result of increased volumes and larger percentages of traffic being provisioned over the Company's network. The Company is continuing to add new markets and build its telecommunications network. The Company's gross profit margins will gradually improve as increased volumes and larger percentages of traffic are provisioned over its own network facilities. The rate of improvement, however, will be slower during periods when the Company expands into new markets, and will accelerate as these markets mature.

Selling, general and administrative expense increased by $20.5 million to $59.7 million for the three months ended June 30, 1998, from $39.2 million for the three months ended June 30, 1997. The Company continued to hire sales, marketing, network and related support personnel in connection with the expansion of its CLEC markets. The Company had approximately 750 employees at June 30, 1997 and approximately 2,300 at June 30, 1998. As a percentage of revenues, selling, general and administrative expenses declined from 240.1% for the quarter ended June 30, 1997 to 104.2% for the quarter ended June 30, 1998. With the rapid expansion of its markets from 1 in December 1996 to 26 at June 30, 1998, and to its plan of 30 at December 31, 1998, the Company expects its selling, general and administrative expenses to continue to grow in absolute dollars, but to be a steadily declining percentage of revenues.

Depreciation and amortization expense increased by $12.0 million for the three months ended June 30, 1998, to $16.9 million, from $4.9 million for the three months ended June 30, 1997 principally resulting from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the three months ended June 30, 1998, was $65.5 million, compared with an operating loss of $43.7 million for the three months ended June 30, 1997.

Interest expense increased by $20.3 million, or 100.6%, for the three months ended June 30, 1998, to $40.5 million, from $20.2 million for the three months ended June 30, 1997. This increase was principally attributable to the issuance of $150 million of debt in the third and fourth quarters of 1997 and another $450 million of debt in the first quarter of 1998. Of the $40.5 million of interest expense incurred for the quarter, $32.4 million is not payable in cash.

Interest income increased by $5.2 million, or 102.5%, for the three months ended June 30, 1998, to $10.3 million, from $5.1 million for the three months ended June 30, 1997. The increase resulted from the additional interest income earned on the proceeds from the Company's various stock and debt placements.

was 85%, compared with 98.1% in the six months ended June 30, 1997. This decrease in the cost of revenue percentage is the result of increased volumes and larger percentages of traffic being provisioned on the Company's network.

Selling, general and administrative expense increased by $44.5 million to $113.3 million for the six months ended June 30, 1998, from $68.8 million for the six months ended June 30, 1997. The Company continued to hire sales, marketing, network and related support personnel in connection with the expansion of its CLEC markets. The Company had approximately 1,479 employees at December 31, 1997 and approximately 2,300 at June 30, 1998. As a percentage of revenues, selling, general and administrative expenses declined from 234% for the six months ended June 30, 1997 to 108.2% for the six months ended June 30, 1998. With the rapid expansion of its markets from 1 in December 1996 to 26 at June 30, 1998, and to its plan of 30 at December 31, 1998, the Company expects its selling, general and administrative expenses to continue to grow in absolute dollars, but to be a steadily declining percentage of revenues.

Depreciation and amortization expense increased by $19.9 million for the six months ended June 30, 1998, to $28.3 million, from $8.4 million for the six months ended June 30, 1997 principally resulting from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the six months ended June 30, 1998, was $125.9 million, compared with an operating loss of $76.6 million for the six months ended June 30, 1997.

Interest expense increased by $38.2 million, or 123.1%, for the six months ended June 30, 1998, to $69.2 million, from $31.0 million for the six months ended June 30, 1997. This increase was principally attributable to the issuance of $450 million of debt in 1997 and another $450 million of debt in the first quarter of 1998. Of the $69.2 million of interest expense incurred for the six months ended June 30, 1998, $50.9 million is not payable in cash.

Interest income increased by $7.9 million, or 108.0%, for the six months ended June 30, 1998, to $15.2 million, from $7.3 million for the six months ended June 30, 1997. The increase resulted from the additional interest income earned on the proceeds from the Company's various stock and debt placements.

For the reasons noted above, the Company reported a loss from continuing operations of $177.3 million for the six months ended June 30, 1998, compared to a net loss from continuing operations of $100.3 million for the six months ended June 30, 1997.

and enters markets more rapidly, or the Company fails to secure additional equipment financing arrangements, the Company may be required to seek additional sources of capital sooner than currently anticipated.

In addition to binding commitments to purchase approximately $21.0 million of telecommunications equipment, the Company is committed to pay approximately $36.4 million in connection with the acquisition of additional spectrum licenses, all of which are subject to FCC approval, of which $32.5 million is payable in cash and as an offset against a $3.5 million loan made by the Company and the balance is payable in common stock or, at the Company's option, in cash.

The Company was the highest bidder on certain LMDS licenses in the LMDS auction and has committed to pay approximately $34.0 million in connection therewith (in addition to the Company's $8.0 million initial down payment in such auction).

The Company has entered into a twenty five year lease agreement for dark fiber capacity in and between a number of major markets at an aggregate cost of approximately $40 million. Amounts will become payable over the next eighteen months as portions of the fiber network are fully constructed and become available to the Company. To date the Company has paid $6.5 million of this amount.

Year 2000 Compliance

The Company is currently addressing the issue of whether or to what extent its systems will be vulnerable to potential errors and failures as a result of the "Year 2000" problem, which is the result of prior computer programs being written using two digits, rather than four digits, to define the applicable year. Any computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in major system failures or miscalculations.

Based on an initial review of its systems, the Company concluded that its significant computer programs and internal operations either will not be materially affected by the Year 2000 problem or will be properly modified or replaced prior to the end of 1999 at a cost which will not be material to the Company. However, in light of the Company's commitment to ensuring the integrity of its systems, including its telecommunications network, the Company is conducting a comprehensive review of its systems to ensure that all such systems are Year 2000 compliant. The Company continues to believe that its exposure to this issue, based on its internal systems, is somewhat limited by the fact that substantially all of its existing systems have been purchased or replaced since 1996 or currently remain under development.

The Company has an ongoing task force, comprised of representatives from each major area of the Company's operations as well as outside consulting firms as appropriate, to evaluate and remediate its Year 2000 problems. This process entails: conducting a comprehensive inventory of the Company's internal systems (including computer and electrical systems, equipment and

include, without limitation: (a) the Company's ability to service its debt or to obtain financing for the buildout of its telecommunications network; (b) the Company's ability to attract and retain a sufficient revenue-generating customer base; (c) competitive pressures in the telecommunications industry; and (d) general economic conditions.

2. Amendment of WinStar Communications, Inc. 1995 Performance Equity Plan increasing the number of shares available for issuance pursuant to grants made thereunder from 7,500,000 to 10,000,000.

Votes For	Votes Against	Abstentions
15,694,443	8,082,532	234,447

3. Approval of the WinStar Communications, Inc. Qualified Employee Stock Purchase Plan and Related Amendment to the Company's By-Laws.

Votes For	Votes Against	Abstentions
23,226,704	597,747	187,001

Item 5 - Other Information

Notes to Stockholders Regarding 1999 Annual Meeting of Stockholders:

Pursuant to Rule 14a-4 promulgated by the Securities and Exchange Commission, stockholders are advised that the Company's management shall be permitted to exercise discretionary voting authority under proxies its solicits and obtains from the Company's 1999 Annual Meeting of Stockholders with respect to any proposal presented by a stockholder at such meeting, without any discussion of the proposal in the Company's proxy statement for such meeting, unless the Company receives notice of such proposal at its principal office in New York, New York no later than March 24, 1999.

Item 6. Reports on Form 8-K

(1) Current report on Form 8-K filed June 25, 1998.

(2) Current report on Form 8-K filed July 23, 1998.

See Things From A Phone Company You've Never Seen Before.

WINSTAR

WinStar Communications, Inc. For the Fiscal Year Ended December 31, 1997

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934
For the Fiscal year ended December 31, 1997
or
[ ] Transition Report Under Section 13 or 15(d) of
The Securities Exchange Act of 1934

Commission file number 1-10726

WINSTAR COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3585278
(State of Incorporation)	(I.R.S. Employer Identification No.)

230 Park Avenue
New York, New York 10169
(212) 584-4000
(Address, including zip code, and telephone number, including area code, of registrant's executive offices)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
Rights to Purchase Series B Preferred Stock

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Check if disclosure of delinquent filers in response to item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Issuer's revenues for its most recent fiscal year: $79,631,000

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days: As of March 27, 1998, the aggregate market value of such stock was approximately $1,599 million.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date: As of March 27, 1998, the number of shares of Common Stock outstanding was approximately 37,217,000.

Documents Incorporated by Reference:

The information required in Part III by Items 10, 11, 12 and 13 is incorporated by reference to the Registrant's proxy statement in connection with the annual meeting of stockholders scheduled to be held on June 10, 1998, which will be filed by the Registrant within 120 days after the close of its fiscal year.

Item 1. Business

General

WinStar Communications, Inc. ("WinStar" or the "Company") provides facilities-based voice and data telecommunications services to businesses and other customers in major metropolitan areas throughout the United States. WinStar holds licenses ("Wireless Licenses") which provide it with the largest amount of 38 GHz radio spectrum in the country, as well as other spectrum, covering more than 125 Metropolitan Statistical Areas ("MSAs") with a total population of approximately 185 million, including the 50 largest MSAs. The Company is building a unique nationwide network using its fiber-quality digital capacity in the 38 GHz spectrum and other portions of the radio spectrum ("Wireless Fiber℠") in order to provide its customers with a broad range of attractively priced services and an alternative to the incumbent local exchange carriers ("ILECs"), other competitive local exchange carriers ("CLECs") and the interexchange carriers ("IXCs"). WinStar believes that its ability to provide information content and services further differentiates it from competitors. The annual business telecommunications market in the United States is estimated at $110 billion, with local telephony and data services, WinStar's target segment, accounting for approximately $47 billion.

WinStar is rapidly building a modern telecommunications infrastructure. It currently provides telecommunications services on a switched basis in 21 major metropolitan markets, including Atlanta, Boston, Chicago, Dallas, Los Angeles, New York City, San Diego and Washington, D.C. WinStar expects to provide telecommunications services using its own switches in 30 major metropolitan markets by the end of 1998 and 40 major metropolitan markets by the end of 1999. WinStar's network buildout has been accelerated through several recent strategic acquisitions. In October 1997, the Company purchased from US ONE Communications Corp. ("US ONE") 12 Lucent 5ESS switches, seven of which are located in markets that WinStar had targeted but had not yet entered. In January 1998, WinStar purchased GoodNet, a Tier I Internet Service Provider ("ISP"), from Telesoft Corp. ("Telesoft"). GoodNet maintains a national Asynchronous Transfer Mode ("ATM") backbone, points of presence ("POPs") in 27 cities throughout the United States and more than 130 peering arrangements with other ISPs. Also in January 1998, as part of its acquisition of the assets of Midcom Communications, Inc. ("Midcom"), WinStar acquired PacNet, a data transmission services provider. PacNet maintains a network of frame relay data switches, POPs in 20 cities throughout the western United States and, through its membership in the Unispan consortium, interconnection and cooperative service arrangements with other frame relay providers with networks across the United States and internationally.

Network Strengths

WinStar believes that its Wireless Fiber and switch-based infrastructure provides it with significant competitive advantages, including:

Ability to Provide a Full Range of Voice and Data Telecommunications Services. The large amount of bandwidth afforded by the Wireless Licenses, together with WinStar's voice and data switching facilities, allow WinStar to offer customers a full range of voice and data telecommunications services, including (i) local dial tone, private branch exchange ("PBX") trunks, individual business lines, Centrex and long distance, (ii) data services, such as Internet access, Wide Area Network ("WAN") services utilizing frame relay, Internet Protocol ("IP") and ATM data transport, and private network services and (iii) facilities-based broadband local access and digital network services ("Carrier Services"). WinStar holds Wireless Licenses in each of the 50 largest MSAs. Including certain additional 38 GHz licenses which WinStar has agreed to acquire and the 28 GHz Local Multipoint Distribution Services licenses ("LMDS Licenses") for which the Company was the highest bidder in the FCC's recently concluded auction ("LMDS Auction"), the Wireless Licenses provide an average bandwidth capacity of more than 750 MHz in the top 30 U.S. markets and approximately 740 MHz in the 50 largest U.S. markets. Each 100 MHz Wireless Fiber channel can support transmission capacity of one DS-3 at 45 Mbps, which is over 750 times the rate of the fastest dial-up modem in general use (56 Kbps) and over 350 times the rate of the fastest integrated services digital network ("ISDN") line in general use (128 Kbps). It is anticipated that the Company's commercial deployment of multipoint facilities, planned to begin in late 1998, will allow a single 100 MHz Wireless Fiber channel to support one OC-3 equivalent of capacity at 155 Mbps. See "—Networks—Wireless Licenses."

Rapid and Cost-Effective Deployment of Infrastructure. Wireless Fiber services generally can be deployed considerably more rapidly than wireline services because of the construction time and permit procedures required for wireline buildout. Further, the equipment used for 38 GHz transmission (*e.g.*, antennae, transceivers and digital interface units) is small, unobtrusive and relatively inexpensive.

Ability to Penetrate Target Markets. In implementing its network plan, WinStar identifies strategically located sites to serve as hubs in each of its metropolitan areas. These hub sites are connected via Wireless Fiber links to customer buildings. Certain characteristics of the 38 GHz frequency, including the effective range of its radio signal and the small amount of dispersion (*i.e.*, scattering) of the radio beam as compared to the more dispersed radio beams produced at lower frequencies, allow for multiple hub sites using the same channel in a licensed area. Further, WinStar's ability to use multiple 38 GHz channels in its target markets provides it with advantages over other providers of fixed wireless telecommunications services that possess fewer channels in their respective portions of the radio spectrum. WinStar believes that its multiple channels, together with the deployment of multipoint technology and it's hub-based network architecture, will allow it to address the needs of a significant portion of the business customers in its target markets via its Wireless Fiber services.

Scalable Capital Expenditures. Because of WinStar's Wireless Fiber capacity and hub-based network architecture, a substantial portion of WinStar's planned capital expenditures is variable and more directly tied to demand. WinStar expects to be able to minimize non-revenue generating deployment of infrastructure because (i) it does not need to fully build out its network in a market before offering services in that market, (ii) bandwidth can be more easily allocated as demanded and (iii) the small size and relatively low cost of radio transceivers and other equipment allows for cost-efficient redeployment as customer demands change.

Deployment of Multipoint Technology. WinStar expects that its planned deployment of point-to-multipoint technology within its networks will allow it to further reduce per-building installation and equipment costs, better leverage existing and future investment in hub equipment, address a significantly greater number of buildings in each market and provide customers with variable amounts of bandwidth as their demands and needs change. The Company believes that it will be able to efficiently integrate point-to-multipoint technology into its point-to-point network infrastructure, thereby enabling the Company to create point-to-multipoint infrastructure in its markets rapidly and cost effectively.

Other Core Assets. WinStar has accumulated a group of core assets, in addition to those described above, which it believes are necessary for it to commercially deploy its telecommunications services. Among these assets are: (i) authorizations to operate as a CLEC in 30 states and the District of Columbia, (ii) agreements that allow the Company to interconnect its facilities with those of other carriers in 41 of the 50 most populated MSAs, (iii) roof rights to install its radios on more than 2,200 buildings and (iv) state-of-the-art information systems platforms to assure the accurate and flexible handling of the billing and customer satisfaction requirements of a diverse customer base purchasing a variety of telecommunications services. WinStar intends to acquire additional core assets as it further rolls out its services and expands its network coverage.

Business Strategy

The telecommunications industry is being reshaped by a number of factors, including the deregulation of local telecommunications markets, growing demand for high-speed, high-capacity digital telecommunications services and the rapid advances in wireless technologies that enable service providers to address this demand, as well as the increasing importance to customers of information services. WinStar believes it is well-positioned to compete successfully in this new telecommunications environment. Key elements of WinStar's strategy to continue its growth as a national provider of telecommunications services are to:

Continue to Expand Network Infrastructure. WinStar currently provides switch-based telecommunication services in 21 major metropolitan markets and expects to provide telecommunications services using its own switches in 30 major metropolitan markets by the end of 1998 and 40 major metropolitan markets by the end of 1999. WinStar is continuing to deploy network infrastructure on a city-by-city basis using its Wireless Fiber capabilities, its voice and data switches and, where appropriate, facilities leased from other carriers. The Company believes that a limited number of hub sites (generally less than 10) in each metropolitan area will allow it to address more than 70% of its

targeted buildings and ultimately to carry the majority of its customers' traffic on its own network instead of the higher-cost facilities of other carriers. WinStar also intends over time to interconnect all of its local networks through intercity fiber optic facilities, creating a single network capable of providing facilities-based voice and data telecommunications services among the metropolitan areas in which the Company has local networks. By building and utilizing its own network, WinStar reduces its reliance on the facilities of other providers, such as the ILECs, enhances service to its customers and reduces its cost of providing services. Unlike most fiber-based CLECs, which typically use facilities leased from incumbent providers to carry the majority of their telecommunications traffic, WinStar anticipates enhancing its operating margins by routing a significant portion of its traffic over its own network as this network and WinStar's presence in its markets mature.

Exploit First-to-Market Advantage. WinStar seeks to exploit its "first-to-market" advantage as the leading provider of fixed wireless local switched and dedicated telecommunications services with an established operating infrastructure and broad geographic license coverage. WinStar believes that early entrance into its markets provides it with advantages over many potential competitors by allowing it to (i) expand its customer base prior to widespread competition from many other CLECs, (ii) develop a proven, reliable and low-cost network infrastructure using its own switching and transmission capabilities ahead of many other CLECs, (iii) develop and implement the advanced information, data and other systems necessary to integrate its fixed wireless infrastructure into the existing global telecommunications network, and (iv) acquire roof rights for antennae placement on a large number of buildings on favorable terms and in advance of other fixed wireless service providers.

Provide Integrated Voice and Data Telecommunications and Information Services. WinStar has found that customers typically prefer to purchase their voice and data telecommunications services as a single package. WinStar offers its customers a broad range of telecommunications services, including basic local dial tone and long distance and, with the acquisitions of GoodNet and PacNet, high-speed switched and dedicated data and Internet access services. WinStar believes that the ability to package information, entertainment and other content and services with telecommunications services will become an increasingly important factor in the business customer's decision to select or retain a telecommunications provider. Accordingly, WinStar actively seeks opportunities to expand its information and content assets and services and to use them to enhance the marketability of its telecommunications services.

Focus on Business Customers. WinStar believes that a substantial opportunity exists to attract a significant base of business customers by rapidly penetrating local markets with high-bandwidth telecommunications services. Initially, WinStar targeted small and medium-sized business customers in buildings that have more than 100,000 square feet of commercial space and which, in most instances, are not served by fiber facilities provided by CLECs. The Company estimates that there are more than 8,000 buildings that meet the criteria of this initial target group. WinStar believes that the growth of its infrastructure and the planned deployment of point-to-multipoint technology will make it cost-effective for the Company to target smaller buildings as well, increasing the number of target buildings to more than 30,000. Furthermore, WinStar's introduction of its data communications services and the expansion of its sales and marketing capabilities now allows it to target larger business customers.

Market Wireless Fiber to Other Carriers. WinStar offers its broadband Carrier Services to other telecommunications providers, including providers of personal communications, cellular and specialized mobile radio services ("CMRS"). WinStar also believes that its Carrier Services present an attractive, economical method for telecommunications providers to add a high-capacity extensions to their own networks, especially as they seek to rapidly penetrate new markets opening as a result of the Telecommunications Act. WinStar's Carrier Services also can provide cost-efficient route diversity where network reliability concerns require multiple telecommunications paths.

Offer High Quality Networks and Superior Customer Service. WinStar believes that it offers cost and service quality advantages over ILECs and other CLECs as a result of its Wireless Fiber technology, integrated service offerings, customer support and network management and monitoring systems. WinStar consults with its customers to develop competitively priced telecommunications services that are tailored to meet their particular needs. WinStar's centrally-managed customer care and support operations are also designed to facilitate the processing of orders for changes and upgrades in services. WinStar believes that it provides greater attention and responsiveness to its customers than do the ILECs.

Capitalize on Management Team Experience. WinStar has assembled a management team and hired operating personnel experienced in all areas of telecommunications and information services, including more than 250 former officers and employees of MCI Communications ("MCI") and Sprint Corporation ("Sprint"), as well as numerous executives and other employees from RBOCs and other established telecommunications companies. WinStar continues to hire additional experienced telecommunications and information services personnel as appropriate.

Services

WinStar offers a full range of telecommunications services, including local telephony, long distance, high-speed switched data and dedicated services. Local telephony services offered by WinStar primarily use high-capacity digital switches to route voice transmission anywhere on the public switched telephone network. WinStar's data transmission services include Internet access and WAN services using frame relay, IP and ATM data transport protocols. Dedicated services offered by WinStar, which include private network services and Carrier Services, use high-capacity digital circuits to carry voice and data transmission in multiple configurations.

WinStar makes its services attractive to potential customers by (i) offering a broad range of telecommunications services that specifically address its target customers' needs, while providing levels of customer satisfaction that exceed those provided by larger competitors and (ii) exploiting the Company's Wireless Fiber service whenever feasible for cost-effective origination and termination of customer traffic, thereby allowing for attractive pricing of services.

Local and Long Distance Telephony Services

WinStar provides customers with local dial tone and connection to both regional and long distance calling. WinStar's services in these areas include the following:

Basic and Enhanced Voice Transmission Services. WinStar offers analog and digital voice-only telephone lines to customers. WinStar owns, manages and maintains its switches, while customizing network configurations and solutions to meet the individual needs of customers. WinStar offers its customers a wide range of other features such as call waiting, call forwarding, conference calling and voice mail, as well as operator and directory assistance services.

Centrex Services. Business customers can use WinStar as their primary Centrex provider, as a supplement to the LEC's Centrex service, or as an addition to customer-owned PBX.

PBX Services. WinStar's PBX services provide businesses with access to the local, regional and long distance telephone public networks. WinStar's PBX service allows customers to use either the Company's telephone numbers or their ILEC-assigned telephone numbers. Connection between the customer's PBX port and WinStar's network is made via Wireless Fiber link or digital facilities leased from the ILECs and other CLECs.

Integrated Long Distance Services. WinStar also offers long distance services to its business customers Currently, WinStar primarily resells long distance through agreements with MCI and Sprint, which provides the Company with access to these carriers' long distance networks at rates that are discounted, varying with monthly traffic generated by the Company.

Data Services

The proliferation of LANs, WANs, Internet services and video enhanced services is causing data flow to become an increasing portion of overall telecommunications traffic. The ability to quickly access and distribute such data and other information is critical to business, education and government entities. The Company believes that by utilizing its broadband local networks and national data transport backbone, it will be able to deliver broadband data services to businesses and other high-capacity users that are currently unable to receive such service offerings from their telecommunications providers. The acquisitions of the GoodNet and PacNet businesses and assets has enabled the Company to more rapidly deploy its network infrastructure, which is critical to the cost-effective provision of data services. To address the growing demand for high-speed, high-bandwidth data telecommunications, WinStar offers its customers a wide range of data telecommunications services including:

Dedicated and Dial-Up Internet Access. WinStar offers dedicated and dial-up Internet access services, as well as web hosting and co-location services. A majority of WinStar's ISP business is as a National Services Provider

providing Internet access to other ISPs through WinStar's Internet backbone acquired with the GoodNet business. WinStar is one of the largest Internet backbone providers in the United States. In addition to other ISPs, WinStar's Internet customers include universities and colleges, large landlords, RBOCs, cable television operators and value-added resellers.

The Company also provides high-speed Internet access services and specialized software with educational content for schools and libraries in the New York City metropolitan area. The Company is currently working with the "Lattice" consortium in the District of Columbia to develop cost-effective, high-capacity Internet connectivity to schools and to nearby subsidized urban housing. WinStar's application suite provides educators with the tools to integrate the educational resources of the World Wide Web into school curricula, enabling them to create their own "electronic libraries," create forums for discussion and debate, and engage in collaborative projects with students and educators throughout the world. The Company intends to expand its reach to other markets by linking schools and libraries to the Internet through its Wireless Fiber services.

Data Transport Services. WinStar utilizes its ATM backbone to provide WAN data transport services which allow customers to interconnect LANs maintained at different sites at native speeds, thereby enabling the connection of workstations and personal computers on one or more LANs. WinStar's WAN services provide customers with transmission capacity for various protocol speeds. WinStar's native-speed WAN services avoid bottleneck problems that are frequently encountered with customary DS-1 connections by providing the customer with a circuit that matches the transmission speeds of its networks. The Company's ATM backbone network supports evolving high-speed applications, such as multimedia, desktop video conferencing and medical imaging. WinStar's WAN services are offered at a variety of capacities to allow customers to choose the level which meets their specific needs.

WinStar also offers frame relay services that provide customers with high-performance, cost-efficient global interconnection of multiple LANs. WinStar's frame relay services are high-speed packet switching systems that utilize transmission links only when required. Frame relay allows for the transportation of data much more rapidly than other packet switching protocols such as X.25. The Company is affiliated with Unispan, a consortium of frame relay providers that enables the frame relay traffic of such providers to be routed throughout the United States and internationally, and terminated in every local access transport area in the United States through interconnections with the RBOCs.

ISDN Services. WinStar provides customers with multiple voice and data communications services over a single telecommunications line. The Company's switches have been configured to permit the provision of ISDN services. ISDN lines allow customers to perform multiple functions such as simultaneous voice and computer links. High-speed ISDN applications include desk top videoconferencing, interconnection of LANs and Internet access.

Potential Interactive Video Applications. The inherent qualities of 38 GHz also offer substantial opportunities for broadband interactive video applications, such as video conferencing, appropriate for highly customized commercial and institutional demands. The narrow-beam characteristics of the 38 GHz band, allowing for frequency reuse within a small area, coupled with its broadband capacity and multichannel capabilities may offer a significant market opportunity in the future as the appropriate technologies emerge, although there can be no assurance of the consumer acceptance or commercial viability of such video services.

Dedicated Services

Private Network Services. WinStar markets its Wireless Fiber services to businesses, government agencies and institutions with multiple locations within the Company's licensed areas and which generate heavy telecommunications traffic between such locations. These entities can utilize Wireless Fiber services to establish their own independent telecommunications systems, creating a dedicated private network.

Wireless Fiber services present the Company's customers with: (i) a method for providing high bandwidth telecommunications connections between their buildings on a cost-effective basis; (ii) a viable alternative to the ILECs' networks which frequently use low-capacity copper wire for "last mile" delivery, generally allowing for faster, more reliable data transmissions; (iii) greater control over their local telecommunications traffic and costs; (iv) diverse routing and thus higher reliability against outage; and (v) greater security because of the private line nature of these connections. WinStar's private network services use high-capacity digital circuits to carry voice and data transmission

from point-to-point in flexible configurations involving different standardized transmission speeds and circuit capacities, including:

- *DS-0.* A dedicated service that accommodates business communications with digital transmission through a voice-grade equivalent circuit with a capacity of up to 64 Kbps. This service offers a private line digital channel for connecting telephones, fax machines, personal computers and other telecommunications equipment. WinStar offers multiple DS-0 services in a variety of combinations and can also provide voice grade analog connections.
- *DS-1.* A high-speed digital channel that typically links customer locations to IXCs, ISPs or other customer locations and which can carry voice and data transmissions. DS-1 services accommodate digital data transmission capacity of up to 1.544 Mbps, the equivalent of 24 voice-grade (DS-0) circuits.
- *DS-3.* The Company currently offers dedicated service capacity equivalent to 28 DS-1 circuits or 672 voice-grade equivalent circuits. It is anticipated that this capacity will continue to expand over time with further developments in high frequency radio technology by manufacturers and the advent of point-to-multipoint service. This digital service can be used to link multiple sites and for data services applications.

Carrier Services. WinStar markets and provides wireless broadband, high-capacity local access and dedicated network services to other telecommunications providers. Using its Wireless Fiber capacity, WinStar offers numerous wireless telecommunications services to support a wide range of local access and dedicated service needs with a high degree of reliability, including:

- *Local By-Pass for Long Distance Carriers.* IXCs can utilize the Company's Wireless Fiber services to connect certain call termination or origination points in a particular licensed area to such carriers' POPs in the licensed area at more economical rates than those generally charged by ILECs and to connect two or more of their respective POPs in a single licensed area.
- *Wireless Complement to CAP and ILEC Networks.* Competitive access providers ("CAPs") typically compete with ILECs by utilizing their own fiber-optic cable rings and lease the other facilities necessary to complete their networks from the ILECs. Due to the large capital investment required to construct such networks, CAPs generally build their networks in limited, densely populated areas and offer services primarily to large customers such as long distance carriers, medium-sized and large businesses, government agencies and institutions. CAPs can utilize Wireless Fiber services to bypass facilities typically leased by them from the ILECs. CAPs can also utilize the Company's Wireless Fiber services to facilitate the buildout and enhance the reliability of their own local telecommunications networks and expand their marketing opportunities.
- *Backbone Interconnection and Redundancy for CMRS Providers.* Wireless Fiber services can be utilized by CMRS providers for interconnecting traffic (backbone network traffic) between and among cell sites, repeaters and the wired local network.

International Opportunities

WinStar has begun to develop its position in certain foreign markets where the Company believes it can leverage its expertise in the application of Wireless Fiber services. WinStar is seeking opportunities to provide telecommunications services in other countries similar to those it provides domestically. The Company may seek such opportunities directly or with other entities on a joint venture or similar basis.

Networks

General

WinStar uses advanced voice and data switches and hub-based fixed wireless network architecture to deliver reliable, high-speed digital transmission of voice and data telecommunications traffic. Customer buildings are interconnected to WinStar's hub sites using Wireless Fiber links and/or facilities leased from other carriers. Traffic between hub sites is carried using Wireless Fiber services or, as needed, on fiber-optic facilities leased from other carriers. WinStar installs customer-dedicated or shared equipment at a location near or in customer premises to

terminate links. WinStar serves its customers from one or more hub sites strategically positioned throughout its networks. The hub site houses or is interconnected with the switches and other transmission equipment needed to connect customers with each other, the IXCs and other local exchange networks. Redundant electronics, with automatic switching to the backup equipment in the event of failure, protect against signal deterioration or outages.

WinStar's planned deployment of point-to-multipoint technology will allow transmissions between a single hub site antenna and multiple customer antennas, thereby allowing WinStar to share the same spectrum among its customers and reducing its capital expenditures. This deployment also will allow WinStar to allocate and share network capacity on an as-needed basis and supply customers with bandwidth-on-demand to address their changing requirements.

WinStar adds data services to its basic transmission platform by installing digital electronics at its switch sites and at customer locations and by accessing the Company's ATM and/or frame relay networks. WinStar's digital telephone switches are interconnected with multiple ILECs and long distance carrier switches to provide WinStar customers access to the entire local market as well as across the country and around the world. Similarly, WinStar provides ATM switches and LAN multiplexers at customer premises and in its switch sites to provide high speed LAN interconnection and native ATM services.

The Company's networks are monitored 24 hours a day, seven days a week through WinStar's state-of-the-art network operations center ("NOC") located in Tysons Corner, Virginia. The NOC provides the Company with points of contact for network monitoring, troubleshooting and dispatching repair personnel in each market. The NOC provides a wide range of network surveillance functions for each network, providing the Company with the ability to remotely receive data regarding the diagnostics, status and performance of such networks. Continuous monitoring of system components by the NOC focuses on proactively avoiding problems as well as reacting to known problems. The Company believes that it provides service reliability equal to or exceeding that provided by the ILECs and other CLECs. PacNet also maintains a separate network operations center in Seattle, Washington which allows the Company to monitor PacNet's frame relay data network.

Wireless Fiber Links

The Company uses its Wireless Fiber capacity as an integral component of its networks for the origination and termination of local voice and data traffic and the interconnection of hub and switching sites. Each Wireless Fiber link currently provides up to eight T-1s of capacity (equivalent to 192 voice lines) or one DS-3 of capacity (equivalent to 672 voice lines). The Company's planned deployment of point-to-multipoint facilities, which are proceeding on a test basis through mid-1998, will allow each of the Company's 100 MHz channels to support one OC-3 equivalent of capacity at 155 Mbps, and the Company believes that there will be additional increases in the capacity of Wireless Fiber services over time as the technology evolves, although no assurance can be given that this will be the case. The Wireless Fiber links meet or exceed general telephone industry standards, provide transmission quality equivalent to that produced by fiber optic-based facilities, and address the growing demand for high-speed, high-capacity, digital telecommunications services for voice, data and video applications, including traditional local access, Internet access and network interconnection services.

Each point-to-point Wireless Fiber path consists of transmission links, which are paired digital millimeter wave radio transceivers generally placed at a distance of less than three miles from one another within a direct, unobstructed line of sight. The transceivers are typically installed on rooftops or towers or in windows. Each point-to-multipoint path will consist of a radio transceiver and antenna system located at a hub site and a transceiver placed at a customer building in line-of-sight with the hub site. Subject to obtaining adequate line of sight, a single multipoint hub transceiver will typically be able to address in excess of 100 customer buildings.

Significant features of Wireless Fiber services include: (i) 38 GHz digital millimeter wave transmissions having narrow beam width, reducing the potential for channel interference and allowing dense deployment and channel re-use; (ii) 100 MHz bandwidth in each channel, allowing for high subdivision of voice and data traffic; (iii) a range of up to five miles between transmission links (although the Company generally maintains link distances of less than three miles or shorter distances in certain areas to meet its internally established performance standards); (iv) performance engineered to provide up to 99.999% reliability, as tested; (v) transmission accuracy engineered to

provide bit error rates of 10-13 (unfaded); (vi) 24-hour network monitoring by the Company's NOC; and (vii) relatively low installed cost for each pair of transceivers comprising a transmission link, with even lower costs allowed through the deployment of point-to-multipoint radios.

In order to provide quality transmission, Wireless Fiber links require an unobstructed line of sight between the two transceivers comprising a link, with a maximum distance between any two corresponding transceivers of up to five miles, although in certain areas, weather conditions may necessitate shorter distances to maintain desired transmission quality. The Company typically limits its link distances to less than three miles. The areas in which such shorter distances are required are those where rainfall intensity and the size of the raindrops adversely impact transmission quality at longer distances. Other weather conditions, such as snow, electrical storms and high winds, have not, in the Company's experience, affected transmission quality or reliability. The cost of additional transceivers where required by weather, physical obstacles or distance may render the provision of Wireless Fiber services uneconomical in certain instances.

The use of wireless equipment may pose health risks to humans due to radio frequency ("RF") emissions from the radio/antenna unit. Any allegations of health risks, if proven, could result in liability on the part of the Company. If the Company were held liable in any product liability suit, such liability could have a material adverse effect on the financial condition and operations of the Company. The FCC recently adopted new guidelines and methods for evaluating the environmental effects of RF emissions from FCC-regulated transmitters, including wireless antennas. The updated guidelines and methods generally are more stringent than those previously in effect. The Company expects that the wireless equipment to be provided by its vendors will comply with applicable FCC guidelines.

Roof Rights

WinStar must obtain roof rights (or rights to access other locations such as towers where lines of sight are available (collectively, "Roof Rights") on each building where a transceiver will be placed. The Company's prequalification activities may include the payment of option fees for Roof Rights to the buildings that are being prequalified. In connection with the development of its Wireless Fiber capacity for both its Carrier Services and CLEC businesses, the Company has been following a plan pursuant to which it seeks to negotiate, prior to receipt of actual service orders, Roof Rights for the installation of Wireless Fiber links on buildings in the metropolitan areas covered by the Wireless Licenses, including hub site buildings which give direct lines of sight to a number of other buildings targeted by the Company and buildings that can provide interconnection access to IXCs' POPs, switch locations and local access nodes.

WinStar acquires Roof Rights on targeted buildings where direct selling efforts are also initiated. If customer traffic is generated prior to the installation of a transceiver on a building, the traffic is generally sent to the Company's switch via circuits leased from other carriers. Once a transceiver and antenna are installed, new traffic from the building is sent to a hub site via Wireless Fiber service and existing traffic being carried over leased circuits may be transitioned over time to Wireless Fiber service. This approach enables WinStar to deploy capital in a highly efficient manner and avoid the need to make front-end investments in transmission capacity for where no customer traffic has been generated. The Company currently has the necessary Roof Rights to install its Wireless Fiber transmission facilities on more than 2,200 buildings in its licensed areas.

In addition to obtaining Roof Rights, the Company must secure other building access rights, including access to conduits and wiring, from the owners of each building or other structures on which it proposes to install its equipment, and may require construction, zoning, franchises or other governmental permits. There can be no assurance that the Company will obtain sufficient Roof Rights and other building access, franchises or permits to successfully carry out its business objectives.

Wireless Licenses

The Wireless Licenses (including the LMDS Licenses for which the Company was the highest bidder in the LMDS Auction) provide in excess of 400 MHz of bandwidth in each of the following cities:

Metropolitan Area	MHz	Metropolitan Area	MHz
Atlanta	900	Minneapolis	600
Baltimore	600	Newark	600
Boston	500	New Orleans	1,350
Buffalo	800	New York	900
Chicago	700	Norfolk	1,350
Cincinnati	800	Oakland	1,650
Cleveland	500	Orlando	1,450
Dallas	800	Philadelphia	600
Denver	700	Phoenix	600
Detroit	500	Pittsburgh	600
Fort Worth	900	Saginaw	400
Ft. Lauderdale	1,000	St. Louis	900
Greensboro	1,350	Salt Lake City	1,250
Houston	900	San Diego	400
Indianapolis	500	San Francisco	1,650
Kansas City	600	San Jose	1,250
Las Vegas	500	San Juan	500
Long Island, New York	500	Seattle	800
Los Angeles	500	Spokane	900
Memphis	600	Tacoma	600
Miami	1,000	Tampa	1,000
Milwaukee	600	Trenton	600
		Washington, D.C	500

The Company also holds licenses for a limited amount of spectrum in frequency bands other than 38 GHz, including 6 GHz, 10 GHz, 18 GHz and 23 GHz. The Company uses these licenses to support and enhance the coverage of its existing 38 GHz spectrum.

On February 10, 1998, the FCC granted the Company additional 38 GHz channels in Atlanta, Buffalo, Cincinnati, Dallas, Houston, Miami, New York, Seattle, St. Louis, Spokane and Tampa. On March 12, 1998, several parties filed petitions for reconsideration of these grants, other than the Seattle grant, with the FCC alleging, among other things, that these channels were granted in violation of the FCC's processing rules and the FCC's November 1997 Report and Order and Second Notice of Proposed Rulemaking (the "38 GHz Order"). WinStar intends to oppose these petitions.

WinStar participated in the FCC's recently concluded LMDS Auction. At the close of the LMDS Auction, WinStar was the highest bidder for A-block licenses in 9 markets and B-block licenses in 6 markets. Each LMDS License covers a defined Basic Trading Area (BTA), with the A-block licenses consisting of 1,150 MHz of spectrum and the B-block licenses consisting of 150 MHz of spectrum. WinStar made aggregate bids for such 15 licenses of approximately $57.8 million. However, WinStar has claimed a 25% bidding credit in the LMDS Auction, making its total commitment to purchase LMDS Licenses approximately $43.4 million. Prior to the auction, WinStar made a $13 million payment which will be offset against this amount. The balance of these payments is due to the FCC when the licenses are granted, which WinStar anticipates will take place in the second quarter of 1998, although such grants are currently subject to final FCC approval.

Advertising and Marketing of Telecommunications Services

The Company markets its telecommunications services on a city-by-city basis through combinations of direct sales, alternative sales channels, television, print and other media. For example, the Company has used its first series of television commercials and print advertising in introducing its telecommunications services and creating brand awareness in Boston, Chicago, Los Angeles, New York and Washington, D.C. This mass media advertising supports the Company's core marketing efforts, which are primarily focused on its 8,000 target buildings. The Company concentrates its marketing efforts on the telecommunications decision-makers in those buildings, which are viewed as "vertical villages" for the Company's sales force to penetrate. The Company also deploys a variety of building-based and other local marketing programs to reinforce its message in these buildings.

The Company is targeting business customers, especially those in buildings in which the Company's Wireless Fiber capacity can be utilized most effectively. In the future, with the deployment of point-to-multipoint service, the Company also intends to market services to residences in multiple-dwelling units, such as apartment buildings.

Consistent with its marketing strategy of emphasizing business customers, the Company has, among other things, introduced products and services readily marketable to business long distance customers, including prepaid phone card services and a broad array of toll-free services, including services which allow toll-free calls to be originated nationwide. The Company also offers business customers several flexible billing services.

The Company markets its Carrier Services: (i) by performing field demonstrations and testing of Wireless Fiber services; (ii) by providing potential customers with Wireless Fiber services at reduced rates, in order to educate such customers about the efficacy and reliability of such services; (iii) by appearing at trade shows and advertising in trade publications; (iv) through national sales agents and direct sales; and (v) directly to existing and potential customers of the Company's other telecommunications services.

Competition in the Telecommunications Industry

The local telecommunications market is intensely competitive and currently is dominated by the ILECs. The Company has been marketing local access and other Carrier Services since December 1994 and local exchange services as a CLEC since April 1996, and, accordingly, the Company has not obtained significant market share in any of the areas where it offers such services, nor does it expect to do so given the size of the local telecommunications services market, the intense competition and the diversity of customer requirements. tn each area covered by the Wireless Licenses, the services offered by the Company compete with those offered by the ILECs which currently dominate the provision of local services in their markets. The ILECs have long-standing relationships with their customers, have the potential to subsidize competitive services with revenues from a variety of business services (to the extent lawful) and benefit from existing state and federal regulations that currently favor the ILECs over the Company in certain respects. While legislative and regulatory changes have provided increased business opportunities for competitive telecommunications providers such as the Company, these same decisions have given the ILECs increased flexibility in their pricing of services. This may allow the ILECs to offer special discounts to the Company's and other CLECs' customers and potential customers. Further, as competition increases in the local telecommunications market, the Company expects general pricing competition and pressures to increase significantly. As ILEC prices decrease, other telecommunications providers will be forced by market conditions to charge less for their services in order to compete.

In addition to competition from the ILECs, the Company also faces competition from a growing number of new market entrants, such as other CAPs and CLECs, competitors offering wireless telecommunications services, including leading telecommunications companies, such as AT&T Wireless, and other wireless entities that hold or have applied for 38 GHz licenses or which may acquire such licenses or other wireless licenses from others or the FCC. There is at least one other CLEC in each metropolitan area covered by the Company's Wireless Licenses, including, in many such areas, companies such as MCI, WorldCom, Teleport Communications ("Teleport") and Time Warner. Many of these entities (and the ILECs) already have existing infrastructure which allows them to provide local telecommunications services at potentially lower marginal costs than the Company currently can attain and which could allow them to exert significant pricing pressure in the markets where the Company provides, or seeks to provide, telecommunications services. In addition, many CAPs and CLECs have acquired or plan to acquire switches so that they can offer a broad range of local telecommunications services.

The Company currently also faces competition from other entities which offer, or are licensed to offer, 38 GHz services, such as AT&T (through its own licenses and its pending ownership of Teleport) and Advanced Radio Telecommunications, Inc. The Company also faces competition in certain aspects of its existing and proposed businesses from a number of competitors providing wireless services in other portions of the radio spectrum, such as CellularVision USA, a provider of wireless television services and wireless Internet access, which may in the future provide other local telecommunications services, and Teligent, Inc., a provider of wireless services utilizing spectrum in the 24 GHz band. In many instances, these service providers hold 38 GHz licenses or licenses for other frequencies (such as 2, 18, 24, 28, 31 and 47 GHz) in geographic areas which encompass or overlap the Company's market areas. Additionally, some of these entities may have greater spectrum resources or enjoy the substantial backing of, or include among their stockholders, major telecommunications entities. Due to the relative ease and speed of

deployment of 38 GHz and some other wireless-based technologies, the Company could face significant price competition from these and other wireless-based service providers.

The FCC recently completed the LMDS Auction. The LMDS Licenses allow for the provision of high capacity, wide-area fixed wireless point-to-multipoint systems. The Company participated in the auction and had the highest bid for the A-Block (aggregate 1150 MHz of bandwidth) LMDS License for nine markets and the B-Block (aggregate 150 MHz of bandwidth) LMDS License for six markets, although there can be no assurance that the Company will receive such licenses until such time as the entire auction process and the bids made therein are reviewed and approved by the FCC. Numerous other entities participated in the auction and had highest bids for LMDS Licenses covering other major metropolitan areas, including entities that had the highest bid for a large number of metropolitan areas. It is likely that one or more of the participants in this auction, or subsequent purchasers of LMDS Licenses from such participants, will use this spectrum to provide telecommunications services in competition with the Company.

The FCC has adopted rules to auction geographical area-wide licenses for the operation of fixed wireless point-to-point and point-to-multipoint communications services in the 38 GHz band, although many 38 GHz licenses already have been issued nationwide. The FCC has indicated that the 38 GHz auction is expected to occur later in 1998. MMDS, also known as "wireless cable," also currently competes for metropolitan wireless broadband services. Although wireless cable licenses currently are used primarily for the distribution of video programming and have only a limited capability to provide two-way communications needed for wireless broadband telecommunications services, there can be no assurance that this will continue to be the case. The FCC has initiated a proceeding to determine whether to provide wireless cable operators with greater technical flexibility to offer two-way services. CMRS providers may also offer fixed services over their licensed frequencies. Finally, the FCC has allocated a number of spectrum blocks for use by wireless devices that do not require site or network licensing. A number of vendors have developed such devices that may provide competition to the Company, in particular for certain low data rate transmission services.

The Company also may face competition from cable companies, electric utilities, ILECs operating outside their current local service areas, long distance carriers and other entities in the provision of local telecommunications services. The great majority of these entities provide transmission services primarily over fiber-optic, copper-based and/or microwave networks, which, unlike the Company's Wireless Fiber services, enjoy proven market acceptance for the carriage of telecommunications traffic. Moreover, the consolidation of telecommunications companies and the formation of strategic alliances within the telecommunications industry, which are expected to accelerate, could give rise to significant new or stronger competitors to the Company. There can be no assurance that the Company will be able to compete effectively in its markets.

The Company's data services also face significant competition from other telecommunications providers, including the ILECs, IXCs and other major providers, and Internet service providers, dedicated network transmission service providers, and frame relay providers, as well as from cable television operators deploying cable modems, which provide high-speed data capability over installed coaxial cable television networks. Further, Internet access services based on existing technologies such as ISDN and, in the future, on such technologies as ADSL and HDSL, will likely provide additional sources of competition to the Company's data transmission services.

The long distance market has relatively insignificant barriers to entry, numerous entities competing for the same customers and a high (and increasing) average churn rate as customers frequently change long distance providers in response to the offering of lower rates or promotional incentives by competitors. The Company competes with major carriers such as AT&T, MCI, WorldCom, LCI and Sprint, as well as other national and regional long distance carriers and resellers, many of whom own substantially all of their own facilities and are able to provide services at costs lower than the Company's current costs since the Company generally leases its access facilities. The Company believes that the RBOCs also will become significant competitors in the long distance telecommunications industry for certain types of services once they are permitted to enter this market and that Internet service providers also will compete in this market.

The Company believes that the principal competitive factors affecting its market share are pricing, customer service, reliability, accurate billing, clear pricing policies and variety of services. The ability of the Company to compete effectively will depend upon its ability to continue to provide a broad range of telecommunications services and to maintain high-quality, market-driven services at prices generally perceived to be equal to or below those

charged by its competitors. To maintain its competitive posture, the Company believes that it must be in a position to reduce its prices in order to meet reductions in rates, if any, by others. Any such reductions could adversely affect the Company. In addition, ILECs have been obtaining additional pricing flexibility. This may enable ILECs to grant volume discounts to larger long distance companies, as well as to individual customers, which also would put the Company's long distance business at a disadvantage in competing with larger providers.

Government Regulation of Telecommunications Operations

The Company's telecommunications services and those of its competitors are subject to regulation by various authorities, including federal, state and local governments. The nature and extent of such regulations effect the scope of the Company's services, their profitability and the degree to which other entities can successfully offer services in competition with the Company. Generally, the FCC exercises jurisdiction over all telecommunications service providers to the extent such services involve the provision of jurisdictionally interstate or international telecommunications, including the resale of long distance services, the provision of local access services necessary to connect callers to long distance carriers providing interstate services, and the use of electromagnetic spectrum (*i.e.*, wireless services). The Company's Wireless Licenses were granted by the FCC and many of the Company's services are subject to the FCC's continuing oversight and jurisdiction. With the passage of the Telecommunications Act, the FCC's jurisdiction has been extended to include certain interconnection and related issues that traditionally have been considered subject primarily to state regulation (*e.g.*, number portability). The Company has sought and obtained numerous licenses and authorizations from the FCC and is in the process of obtaining additional FCC licenses and authorizations.

The allocation of jurisdiction between federal and state regulators over dedicated circuits that carry both interstate and intrastate traffic (including private line and special access services) poses certain jurisdictional issues. Although the FCC does not generally rule on the jurisdictional nature of a carrier's traffic, under current FCC practice, non-switched telecommunications services are considered jurisdictionally interstate (subject to FCC jurisdiction) unless more than 90% of the traffic is intrastate in nature. Currently, the Company's dedicated service offerings are primarily jurisdictionally interstate in nature. The Company believes that these services include virtually all service between a long distance carrier's POP and another POP of that long distance carrier or another long distance carrier, and between an end user and a long distance carrier's POP.

The Company currently is not subject to price-cap or rate-of-return regulation and it may install and operate non-radio facilities for the transmission of interstate (but not international) communications without prior FCC authorization.

The Company has filed tariffs with the FCC as required with respect to its provision of interstate service. In October 1996, the FCC ruled that non-dominant inter-exchange carriers such as the Company may no longer file tariffs with the FCC and existing tariffs were required to be withdrawn by September 22, 1997. This requirement has been stayed by court order. The Company, through state-specific subsidiaries, has received certification or other appropriate regulatory authority to provide intrastate non-switched service in 31 states and the District of Columbia and has applied for authority in a number of additional states. In addition, the Company recently consummated the Midcom Asset Acquisition. Midcom is a provider of interstate and intrastate long distance services and data transport services. The former customers of Midcom acquired by the Company are currently being provided service by the Company pursuant to the order of the bankruptcy court approving the Midcom Asset Acquisition. The Company has filed for and is in the process of obtaining regulatory approvals from appropriate state regulatory agencies.

Some of the Company's services are classified as intrastate and therefore currently are subject to extensive state regulation. The nature of such regulation varies from state to state, but in some states it may be more extensive than the regulations imposed by the FCC. In all states where the Company is offering jurisdictionally intrastate Carrier Services or CLEC services, the Company (through its state-specific operating subsidiaries) is certified or otherwise operating with appropriate state authorization. The Company provides intrastate long distance service pursuant to certification, registration or (where appropriate) on a deregulated basis in more than 40 states. The Company expects that as its business and product lines expand and as more pro-competitive regulation of the local telecommunications industry is implemented, it will offer additional intrastate services. The Company is seeking to expand the scope of its intrastate services in various jurisdictions, a process which depends upon regulatory action and, in some cases, legislative action in the individual states. Interstate and intrastate regulatory requirements are changing rapidly and

will continue to change. The inability to obtain state approvals to expand the Company's services, or the modification of existing state approvals to offer services, could have a material adverse effect on the Company.

Although the Company believes that it is in substantial compliance with all material laws, rules and regulations governing its operations and has obtained, or is in the process of obtaining, all licenses and approvals necessary and appropriate to conduct its operations, changes in existing laws and regulations, including those relating to the provision of wireless local telecommunications services via 38 GHz and/or the future granting of 38 GHz licenses, or any failure or significant delay in obtaining necessary regulatory approvals, could have a material adverse effect on the Company. On December 15, 1995, the FCC announced the issuance of a Notice of Proposed Rulemaking ("NPRM"), pursuant to which it proposed to amend its current rules relating to 38 GHz and ordered that those applications that were subject to mutual exclusivity with other applicants or that were placed on public notice by the FCC after September 13, 1995 would be held in abeyance and not processed by the FCC pending the outcome of the proceeding initiated by the NPRM.

In January 1997, the FCC released a Memorandum and Order ("MO") addressing some application processing matters raised by the NPRM. In the MO, the FCC decided to process certain amendments filed between November 13, 1995 and December 15, 1995. Other amendments filed on or after November 13, 1995 remain subject to the freeze. Applications that were amended to resolve mutual exclusivity by December 15, 1995 would be processed, provided they had completed their 60 day public notice period as of November 13, 1995. Amendments to reduce existing license areas or delete frequency blocks on licenses would be permitted.

In November 1997, the FCC issued the 38 GHz Order in the proceeding which addressed service rules and a procedure for auctioning unlicensed 38 GHz spectrum. The FCC adopted many of the major positions advocated by WinStar in the NPRM, including: (i) flexible use of licenses, including multi-point and mobile operations (subject to the development of inter-licensee and inter-services standards); (ii) no quantitative restrictions on the accumulation of 38 GHz spectrum; (iii) rejection of commercial satellite industry positions that 39.5 to 40.0 GHz should be solely designated for satellite operation and that 38 GHz service rules should be delayed; (iv) rejection of equipment efficiencies standards; (v) permit licensees to utilize their licenses as the market dictates and engage in geographic partitioning and spectrum disaggregation under certain circumstances; (vi) limited buildout requirements based on substantial service; (vii) process pending unencumbered applications; (viii) institute border interference standards; (ix) permit use of spectrum for both common carrier and private carriage operations; and (x) auction of unlicensed areas of the 38 GHz band.

In the 38 GHz Order, a substantial service buildout requirement was adopted which generally requires the licensee to establish, during the license renewal procedure, that the license is being utilized in the public interest. The earliest license expirations for the Company occur on February 1, 2001. Licensees are granted an expectation of renewal, but such an expectation is not guaranteed. The FCC did not mandate specific buildout criteria, but did offer an example of "substantial service" for a typical point-to-point licensee of four wireless transmission links per million population within a service area.

The FCC is currently processing all pending eligible license applications. Those with defects or which are encumbered by mutually exclusive competing applications will be dismissed. The FCC decided to dismiss all unripe applications (*e.g.*, those applications which did not stay on Public Notice for 60 days prior to the November 13, 1995 application freeze) and all pending mutually exclusive applications. Pending petitions at the FCC seeking to protect these dismissed applications have yet to be addressed. The clear channel portions of pending multichannel applications will be processed. Mutually exclusive channels from those multichannel applications will be dismissed.

Currently unlicensed channels will be auctioned on a Rand McNally BTA (Basic Trading Area) basis. The auction will cover 493 BTA areas. In BTAs where an incumbent's rectangular service area license exists, the auction will only be for the portion of the BTA which is not covered by an incumbent license. The exact timing of the 38 GHz auction was not specified, but the FCC has announced that it is seeking to conduct the auctions in the third quarter of 1998. In the R&O the Commission identified two future rule makings. The first will address inter- and intraservice interference standards which could have a substantial impact on the Company's services by limiting the amount of power transmitters may use or by imposing other technical constraints on the Company's systems. The second will determine the reserve price and minimum opening bid criteria for the 38 GHz auction. Because the Company has traditionally received its 38 GHz licenses without the payment of auction-based fees, the second rulemaking and the use of competitive bidding generally to license spectrum in the 38 GHz band could impact the

price and availability of additional 38 GHz licenses to expand or further develop the Company's services. The Commission did not state when either of these rule makings would occur, but the latter must be concluded before the auction takes place.

The rules set forth in the 38 GHz Order are scheduled to become effective on April 7, 1998. Petitions for reconsideration have been filed with the FCC which challenge a number of the findings set forth in the 38 GHz Order. Appeals may be filed until April 7, 1998. The changes adopted by the 38 GHz Order are expected to be the subject of numerous comments by members of the telecommunications industry, the satellite industry, various government agencies and others. Consequently, there can be no assurance that the 38 GHz Order will result in the retention of rules consistent with the rules initially proposed in the NPRM, or that any rules will be adopted. Until administrative and judicial remedies are exhausted, the actual effect of the new rules adopted in the 38 GHz Order remain uncertain. On March 9, 1998, several parties filed the Petitions alleging, among other things, that the FCC's February 10, 1998 grants to WinStar of additional channels in 11 markets were in violation of the FCC's processing rules. Such Petitions were made available to the public on March 10, 1998. At least one of these parties stated its intent to file a separate pleading on this issue. There can be no assurance that the Petitions will not result in such additional channel grants to WinStar being rescinded.

The Telecommunications Act gives local government the authority to regulate certain aspects of the telecommunications infrastructure. Such aspects include franchises, laying of cable and management of certain rights of way and may also include the siting of certain radio facilities, such as antenna and antenna towers which, under the Telecommunications Act, must be administered in a non-discriminatory manner. The type and timing of local approvals, as well as the specific equipment or facilities requiring approval, and the applicable fees, if any, varies among the local governments. The scope of local authority under the Telecommunications Act has been the subject of a number of disputes between telecommunications carriers and local authorities and the Company anticipates that administrative proceedings and litigation relating to such disputes are likely to continue. The FCC has recently preempted, and thereby prevented enforcement of, certain state and local regulations that had the effect of inhibiting local competition. Further, certain jurisdictions including, but not limited to, the city of Dallas, have sought to impose a franchise fee requirement on carriers, including microwave carriers, that do not own or maintain facilities in the public rights-of-way, and in some cases also have attempted to predicate each carrier's right to connect to the 9-1-1 PSAP (public service administration point) on the carrier's first obtaining a franchise. Any inability or unwillingness by the FCC and/or courts of competent jurisdiction to preempt, stay, and/or enjoin such additional state and local regulations in a timely fashion could have a material adverse impact on the Company.

In July 1996, the FCC mandated that the responsibility for administering and assigning local telephone numbers be transferred from Bellcore to a neutral entity. In August 1996, the FCC adopted regulations that address certain of these issues, but left others for decision by the states and the neutral number plan administrator. In August 1997, the FCC designated Lockheed Martin as the neutral numbering plan administrator and the process of transferring numbering administration to this entity officially was completed in January 1998. The new FCC regulations (a) require states, in creating new area codes, to impose the same dialing procedures on ILECs for all local numbers (including both previously issued and new numbers) as on new entrants (such as the Company); and (b) prohibit ILECs from charging "code opening" fees to competitors (such as the Company) unless they charge the same fee to all carriers including themselves. In addition, each carrier is required to contribute to the cost of numbering administration through a formula based on net telecommunications revenues. In the July 1996, the FCC permitted both residential and business customers to retain their telephone numbers when switching from one local service provider to another (known as "number portability"). Interim number portability, using remote call forwarding and other processes, was to be implemented immediately. "Permanent" number portability, using a centralized data base solution, initially was to commence as of October 1, 1997. In particular, RBOCs initially were required to commence implementing permanent number portability in the 100 largest markets by October 1, 1997 and to complete such implementation by December 31, 1998. The October 1 date, however, was thereafter extended to March 1998 at the request of the industry. In smaller markets, RBOCs must implement number portability within six months of a request therefore commencing December 31, 1998. Other ILECs were required to implement number portability by October 31, 1997 in those of the largest 100 markets where the feature is required by another ILEC. Non-RBOC ILECs are not required to implement number portability in any additional markets until December 31, 1998, and then only in markets where the feature is required by another ILEC. Lockheed Martin and a

second vendor initially were selected as administrators for such permanent number portability implementation in assigned regions of the country. Subsequently, the second vendor was unable to meet requisite implementation deadlines and its regions (*i.e.*, West, Pacific, and Southeast, corresponding principally to those incumbent regions served by US West, Pacific Bell, and BellSouth, respectively) are in the process of being assumed by Lockheed Martin. In response, the FCC has issued an order allowing affected ILECs to request a waiver from the original implementation schedule, and several such waivers have now been filed.

The competitive environment in which the Company operates changed significantly with the passage of the Telecommunications Act. The Telecommunications Act is intended to remove the formal barriers between the long distance and local telecommunications services markets, allowing service providers from each market (as well as providers of cable television and other services) to compete in all communications markets. Section 271 of the Telecommunications Act establishes procedures to permit RBOCs that meet certain statutory requirements, including a 14-point competitive checklist designed to open the local telecommunications market to competition, to compete in the provision of long distance services ("InterLATA Services") across local access transport areas ("LATAs"). Additionally, the FCC must promulgate new regulations over the next several years to address mandates contained in the Telecommunications Act, which may change the regulatory environment significantly. The Telecommunications Act generally requires ILECs to provide competitors with interconnection and nondiscriminatory access to the ILEC network on more favorable terms than have been available in the past. However, such interconnection and the terms thereof are subject to negotiations with each ILEC, which may involve considerable delays and may not necessarily be obtained on terms and conditions that are acceptable to the Company. However, such interconnection and the terms thereof are subject to negotiations with each ILEC, which may involve considerable delays, and may not necessarily be obtained on terms and conditions that are acceptable to the Company. In such instances, although the Company may petition the proper regulatory agency to arbitrate disputed issues, there can be no assurance that the Company will be able to obtain acceptable interconnection agreements.

As required by the Telecommunications Act, the FCC, in August 1996, adopted new rules implementing the interconnection and resale provisions of the Telecommunications Act (the "Interconnection Order"). These rules constitute a pro-competitive, deregulatory national policy framework designed to remove or minimize the regulatory, economic and operational impediments to full competition for local services, including switched local exchange service. Although setting minimum uniform national rules, the Interconnection Order also relied heavily on states to apply these rules and to exercise their own discretion in implementing a pro-competitive regime in their local telephone markets. Among other things, the Interconnection Order: established rules requiring incumbent ILECs to interconnect with new entrants such as the Company at specified network points; required incumbent ILECs to provide carriers nondiscriminatory access to network elements on an unbundled basis at rates that are just, reasonable and nondiscriminatory; established rules requiring incumbent ILECs to allow interconnection via physical and virtual co-location; required the states to set prices for interconnection, unbundled elements, and termination of local calls that are nondiscriminatory and cost-based; required incumbent ILECs to offer for resale any telecommunications service that the carrier provides at retail to end users at prices to be established by the states but which generally are at retail prices minus reasonably avoided costs; and required ILECs and utilities to provide new entrants with nondiscriminatory access to poles, ducts, conduit and rights-of-way owned or controlled by ILECs or utilities. Exemptions to some of these rules are available to ILECs which qualify as rural ILECs under the Telecommunications Act. The Interconnection Order also required that: ILECs provide new entrants with nondiscriminatory access to directory assistance services, directory listings, telephone numbers, and operator services; and ILECs comply with certain network disclosure rules designed to ensure the interoperability of multiple local switched networks. There can be no prediction as to the manner in which the Interconnection Order will be implemented or enforced or as to what effect such implementation or enforcement will have on competition within the telecommunications industry generally or on the competitive position of the Company specifically. In July 1997, the United States Court of Appeals for the Eighth Circuit invalidated certain provisions of the Interconnection Order, including those provisions in which the FCC asserted jurisdiction over the pricing of interconnection elements and the "pick-and-choose" provisions for carriers to adopt select provisions of other carriers interconnection agreements. As has been the case since the Interconnection Order was stayed by the Court of Appeals in October 1996, many states continue to set the prices for interconnection, resale and unbundled network elements in a similar manner to that proposed by the FCC in the Interconnection Order. In August and October 1997, the Eighth Circuit issued additional decisions invalidating portions of the FCC's interconnection orders, including those pertaining to dialing parity requirements

and bundling of network elements. The FCC has appealed the Eighth Circuit's rulings to the United States Supreme Court, which has agreed to hear such appeal in the Fall of 1998.

On January 22, 1998, the Eighth Circuit ruled that the FCC cannot apply its local competition pricing rules in reviewing applications of the RBOCs for authorization under Section 271 to provide InterLATA Services in one of their in-region states. If upheld, this decision could make it somewhat easier for the RBOCs to enter the market for in-region long distance services. Although the Company believes that the final outcome of the Eighth Circuit cases, including any further proceedings or a Supreme Court appeal, will not materially adversely affect its operations, there can be no assurance of this.

On December 31, 1997, a United States District Court judge in Texas held unconstitutional certain sections of the Telecommunications Act, including Section 271. The District Court has granted the request of the FCC and certain IXCs for a stay, and the Company expects that the FCC and certain IXCs will file appeals of the decision with the United States Court of Appeals for the Fifth Circuit. Although there can be no assurance as to the outcome of this litigation, the Company believes that significant parts of the District Court decision may be reversed or vacated on appeal. If Section 271 is struck down, RBOC entry into the in-region inter-LATA market would likely be expedited. No RBOC has yet received in-region inter-LATA authority.

Pursuant to the Telecommunications Act, the FCC recently issued orders reforming ILEC access charge mechanisms and establishing new support mechanisms for the provision of universal service. Under the access reform orders, the FCC took steps to make the rate structure in interstate access more efficient and to move access charges (*i.e.*, the transmission of long distance calls from the caller's location to the long distance provider's POP, and from the terminating POP to the recipient of the call) closer to the actual cost of providing such services. As a result, incumbent ILECs that are subject to price cap regulation (*e.g.*, the RBOCs, GTE and Sprint) are required under the order to reduce the interstate rates they charge IXCs for switched local access. For CAPs, such as the Company's Carrier Services operations, which provide local access at rates that are discounted from the rates charged by the incumbent ILECs, access charge reform may have both positive and negative effects (*e.g.*, CAPs might be forced to reduce the rates they charge long distance providers, resulting in lower gross margins (which, in the case of the Company currently are negative); but the more rational cost structure may give CAPs additional opportunities to provide access services to small and mid-sized interexchange carriers). In addition, under the FCC's universal service order, all interstate telecommunications service providers are required to pay for universal service support based on percentages of their end-user revenues to be established quarterly by the FCC. If the Company's operating subsidiaries provide subsidized services, they are eligible to receive universal service support provided they meet certain statutory requirements. The FCC's access charge and universal service orders have been appealed.

The Company is unable to predict what effect the Telecommunications Act (including any changes thereto, interpretations thereof and orders issued thereunder) will have on the telecommunications industry in general and on the Company in particular. No assurance can be given that any regulation will broaden the opportunities available to the Company or will not have a material adverse effect on the Company and its operations. Further, there can be no assurance that the Company will be able to comply with additional applicable laws, regulations and licensing requirements or have sufficient resources to take advantage of the opportunities which may arise from this dynamic regulatory environment.

Pursuant to an international agreement to which the United States is a signatory, the 38.6 to 40.0 GHz band is allocated on a co-primary basis to the Fixed Satellite Services ("FSS") and the 39.5 to 40.5 GHz band is allocated on a co-primary basis to the Mobile Satellite Services. The FCC has not proposed rules to implement the agreement provisions, although comments and a petition for rulemaking have been filed with the FCC by Motorola requesting that such rules be considered and, in particular, that power flux density limits be adopted. In response, on May 21, 1996, the FCC placed on public notice for comment the petition to allocate the 37.5 to 38.6 GHz bands to the FSS and to establish Technical Rules for the 37.5 to 38.6 GHz band. In addition, Motorola requested the FCC to adopt the power flux density limitations of the ITU Radio Regulations for the 37.5 to 40.5 GHz band in order to allow FSS systems and terrestrial microwave operators to co-exist on a co-primary basis. In September 1996, Motorola filed an application at the FCC to offer fixed satellite services using a portion of the radio spectrum that includes the 38.6-40.0 GHz band where the Company holds its Wireless Licenses. On July 14, 1997, Hughes Communications, Inc. filed an application at the FCC to offer fixed satellite services using a portion of the radio spectrum that includes 39.5 to 40.0 GHz. On July 22, 1997, the FCC issued a Public Notice inviting new applicants to construct, launch

and operate U.S. licensed space stations to provide satellite services in the 40 GHz band. In response, a number of additional companies have filed applications with the FCC seeking to utilize some or all of the 38 GHz band on a shared basis with terrestrial users including TRW, Inc., Lockheed Martin Corporation, GE American Communications and PanAmSat Corporation. If the FCC were to allow transmissions from space to earth as proposed by such applicants, such transmissions could possibly adversely affect the Company's existing or future operations by creating interference or causing the FCC to institute power and other limitations upon the Company's transmissions. If adopted as proposed, a number of these applications would likely require changes in the FCC's rules, although it would likely be a number of years before such satellite systems could be launched. The extent of the adverse impact upon the Company's operations if such applications were to be granted in their current form is unknown, but there can be no assurance that the Company's operations would not be adversely effected. Although the majority of these applications have not yet been placed on public notice for comment and no final order has been issued in connection with these applications, the FCC issued an NPRM in a band plan proceeding proposing that the 38.6 to 40.0 GHz band be designated for fixed terrestrial wireless services. In the 38 GHz Order, the FCC declined to change this service designation. However, this designation could change in the future.

As described in the 38 GHz Order, the FCC's policy is to align the expiration dates of all outstanding 38 GHz licenses such that they mature concurrently on February 1, 2001 and, upon expiration, to renew all such licenses for ten years if the FCC's "substantial service" buildout requirements are met at renewal. While the Company believes that all of its Wireless Licenses will be renewed based upon FCC custom and practice establishing a presumption in favor of licensees that have complied with their regulatory obligations during the initial license period, there can be no assurance that any Wireless License will be renewed upon expiration of its initial term. The failure of the Company to meet the buildout requirement and obtain a renewal of its Wireless Licenses would have a material adverse effect on the Company.

State regulatory commissions retain nonexclusive jurisdiction over the provision of telecommunications services to the extent such services involve the provision of jurisdictionally intrastate telecommunications. The Company has authorizations to provide services from numerous states and may need to seek additional state authorizations in the future. Municipalities also may regulate limited aspects of the Company's business by, for example, imposing zoning requirements, permit or right-of-way procedures, and certain taxes or franchise fees.

Under the Telecommunications Act, the FCC may, if it finds that the public interest will be served, deny or revoke a common carrier radio license if more than 25% of the capital stock of the entity that directly or indirectly controls the applicant or licensee is owned of record or voted by non-U.S. citizens, foreign governments or their representatives, or non-U.S. corporations. The Telecommunications Act also prohibits a licensee from holding a common carrier radio license if more than 20% of the capital stock of the licensee is owned of record or voted by non-U.S. citizens, foreign governments or their representatives, or non-U.S. corporations. As a result of U.S. commitments to the World Trade Organization ("WTO") Basic Telecommunications Agreement, the FCC adopted, on November 25, 1997, a Report and Order and Order on Reconsideration in which the FCC adopted a liberalized entry policy for carriers from WTO member countries to access the U.S. telecommunications market. The FCC extended this new policy to foreign ownership of common carrier radio licenses, and adopted a rebuttable presumption that greater than 25% ownership by an entity from a WTO member country of a corporation indirectly or directly controlling a common carrier radio licensee is in the public interest. The 20% capital stock restriction on direct investment by all non-US entities in common carrier radio licensees remains in effect. With respect to investors from non-WTO member countries, the FCC will continue to apply an "effective competitive opportunities" test in the exercise of its statutory discretion to permit foreign ownership of more than 25% of a corporation controlling a common carrier radio licensee. In applying the "effective competitive opportunities" test, the FCC generally will consider the ability of U.S. telecommunications carriers to provide services in the home market of the non-WTO Member country at issue. The new policies and rules in the Report and Order and Order on Reconsideration took effect on February 9, 1998.

Additionally, providers of telecommunication services are coming under intensified regulatory scrutiny for marketing activities by them or their agents that result in alleged unauthorized switching of customers from one service provider to another. The FCC and a number of state authorities are seeking to introduce more stringent regulations or take other actions to curtail the intentional or erroneous switching of customers, which could include, among other things, the imposition of fines, penalties and possible operating restrictions on entities which engage or

have engaged in unauthorized switching activities. In addition, pursuant to the Telecommunications Act, the FCC has proposed regulations imposing procedures for verifying the switching of customers and additional remedies on behalf of carriers for unauthorized switching of their customers. The effect, if any, of the adoption of any such proposed regulations or other actions on the telecommunications industry and the manner of doing business therein, cannot be anticipated. Other statutes and regulations which are or may become applicable to the Company as it expands could require the Company to alter methods of operations, at costs which could be substantial, or otherwise limit the types of services offered by the Company. See "—Legal Proceedings."

The Communications Decency Act (the "Decency Act"), which was passed as part of the Telecommunications Act, imposed criminal penalties on anyone who distributes obscene, lascivious or indecent communications on the Internet. As enacted, the Decency Act imposed fines on any entity that: (i) by means of a telecommunications device, knowingly sends indecent or obscene material to a minor; (ii) by means of an interactive computer service, sends or displays indecent material to a minor; or (iii) permits any telecommunications facility under such entity's control to be used for the foregoing purposes. That provision, as applied to indecent material, was declared unconstitutional in June 1997 by the United States Supreme Court. While the Clinton Administration has announced that it will not seek passage of similar legislation to replace this provision, action by Congress in this area remains possible. Prior to the enactment of the Decency Act, a federal district court held than an ISP could be found liable for defamation on the grounds that it exercised active editorial control over postings to its service. The Decency Act contains a provision which, one court has held, shields ISPs from such liability for material posted to the Internet by their subscribers or other third parties.

New Media Business

WinStar believes that the ability to package information, entertainment and other content and services with telecommunications services will become an increasingly important factor in the business customer's decision to select or retain a telecommunications provider. The Company actively seeks opportunities to acquire the rights or means to market and distribute information and entertainment content and services both in traditional markets (such as television, video, cable and radio) and through new media channels such as Internet sales and services. The Company believes that such content services will enhance the marketability of the Company's telecommunications services.

The Company's media and information services and entertainment content operations are conducted through its wholly-owned subsidiary, WinStar New Media Company, Inc. ("WinStar New Media"), and WinStar New Media's subsidiaries, and are organized into three operating units: WinStar for Business; WinStar TV and Video; and WinStar Networks.

WinStar for Business™ provides business information to businesses through WinStar Telebase Inc. ("WinStar Telebase"), an on-line business information service. WinStar Telebase designs, manages and markets on-line information services culled from more than 1,000 databases and leading electronic information services, including Dialogue, Dun & Bradstreet and TRW. WinStar Telebase's services provide "pay-as-you go" access to business, research and specialized information both directly and indirectly through more than 25 private label distributors such as CompuServe (now owned by AOL), Prodigy and AOL. These services allow users to search over 1,000 on-line resources, including specialized and technical publications, news and financial sources in order to access a variety of material such as credit, medical, patent and trademark information. WinStar Telebase recently launched the WinStar Business Info Center™, a private-label on demand business information service customized for WinStar's customers and being offered through WinStar's telecommunications sales force.

WinStar TV and Video produces and distributes non-fiction and entertainment programming. Historical documentaries produced by WinStar New Media include *The Great Ships* and *Gunfighters of the Old West*, for exhibition on the cable television outlets The History Channel and The Learning Channel, respectively. This unit also distributes television and film products to broadcast, satellite and cable channels on a worldwide basis, drawing from a library of approximately 1,500 hours of documentary, light entertainment and special interest titles. The unit's U.S. video division focuses on the distribution of classic foreign and art films under its Fox/Lorber label, such as *Umbrellas of Cherbourg* and *Z*, and releases special interest video titles under its WinStar Home Entertainment label, such as *Leslie Nielsen's Stupid Little Golf Video*. In addition, WinStar Broadcasting Corp., a wholly-owned subsidiary of WinStar New Media, has broadcast license applications pending with the FCC in a number of television markets.

WinStar Networks owns and operates SportsFan Radio ("SportsFan"), which provides live sports talk and information to approximately 350 radio stations across the United States, up to 24 hours a day, seven days a week, featuring on-air personalities such as John Madden, James Brown, Pat O'Brien and Keith Olbermann. SportsFan also has a developing on-line presence on the World Wide Web and AOL (AOL Keyword: SportsFan). In addition, WinStar Networks sells both advertising time for third-party syndicated radio program suppliers and advertising for content-driven interactive media sites.

The industry in which the Company's new media operation competes consists of a very large number of entities producing, owning or controlling news, sports, entertainment, business and educational and informational content and services, including telecommunications companies, television broadcast companies, sports franchises, film and television studios, record companies, newspaper and magazine publishing companies, universities and on-line computer services and networks. Competition is intense for timely and highly marketable or usable information and entertainment content. Almost all of the entities with which the Company's new media operation competes have significantly greater presence in the various media markets and greater resources than the Company, including existing content libraries, financial resources, personnel and existing distribution channels. There can be no assurance that the Company will be able to successfully compete in the emerging new media industry.

Other Business

The Company has historically generated a significant portion of its revenues from the resale of long distance services to residential customers. As part of its CLEC service offerings, the Company is focusing on the sale of long distance services to businesses and is not currently marketing such services to residential customers on an active basis. In connection with the Midcom Asset Acquisition, the Company also acquired a cellular services reseller which provides services in the northwest United States and a minority interest in a provider of telecommunication services in the Russian Far East.

Prior to the Company's entry into the telecommunications industry, it marketed and distributed consumer products, including personal care and bath and beauty products, through Global Products, a nonstrategic subsidiary. That subsidiary continues to sell such products, primarily to large retailers, mass merchandisers, discount stores, department stores, national and regional drug store chains and other regional retail chains. The Company expects to divest itself of this subsidiary during the next 12 months, and the operations of Global Products are reflected in the Company's financial statements as discontinued operations.

Employees

As of March 20, 1998, the Company had approximately 2,100 employees. The Company is not a party to any collective bargaining agreements and has never experienced a strike or work stoppage. The Company considers its relations with its employees to be satisfactory.

Item 2. Properties

The Company's corporate headquarters are located at 230 Park Avenue, New York, New York 10169. These headquarters are situated in approximately 18,000 square feet of space which are leased by the Company. The Company has leases for additional office space of approximately 6,000 square feet and 11,500 square feet, each at 230 Park Avenue. Each of the above-described leases expires in November 2006. The Company maintains leases on other properties used in the operations of its subsidiaries, including leases for its CLEC operations facilities in Tysons Corner and Vienna, Virginia. The Company believes that its insurance coverage on its properties is adequate and that the Company, and each of its subsidiaries, as the case may be, is in compliance with the related leases.

Item 3. Legal Proceedings

WinStar Gateway Network, Inc., the Company's residential long distance subsidiary ("WinStar Gateway") occasionally receives inquiries from state authorities and the FCC with respect to consumer complaints concerning the provision of telecommunications services, including allegations of unauthorized switching of long distance carriers and misleading marketing. The Company believes such inquiries are common in the long distance industry and addresses such inquiries in the ordinary course of business. In December 1996, the FCC and WinStar Gateway entered into a consent decree which terminated an inquiry by the FCC into any alleged violations of unauthorized carrier conversions through the use of contest programs by some of WinStar Gateway's agents. The FCC cited

Item 3. Legal Proceedings—(Continued)

WinStar Gateway's efforts in identifying the problems caused by these agents and its proactive response in implementing remedial actions on its own as significant factors leading to the consent decree in lieu of initiating a formal investigation. The Company entered into assurances of voluntary compliance with the attorneys general of a number of states and has also initiated negotiations with other state authorities to resolve any claims by such authorities arising from the contest programs. The Company does not believe that resolution of these issues will have a material adverse effect on the Company, its financial condition or its results of operations.

In June 1996 the Company, as plaintiff, commenced an action for declaratory judgment against Nelson Thibodeaux, a former officer of WinStar Gateway, in the Federal District Court for the Southern District of New York, seeking a declaration that the Company has no obligation to Mr. Thibodeaux under stock option agreements granted to him during his employment with WinStar Gateway. This action was commenced in response to claims made by Mr. Thibodeaux that he is entitled to a significant number of additional options (or the cash value thereof) pursuant to the antidilution provisions of such agreements. The Company strongly believes that no events have taken place which would have triggered such antidilution provisions. Additionally, the Company seeks monetary damages arising from an alleged breach by Mr. Thibodeaux of the non-competition and related provisions contained in his employment agreement with the Company. Mr. Thibodeaux has answered the Company's complaint, denying all of the Company's assertions and asserting counterclaims seeking damages against the Company, Mr. Rouhana and Fredric E. von Stange, who is a former director and Chief Financial Officer of the Company, all of whom deny any liability to Mr. Thibodeaux. The Company intends to diligently proceed with this action which is currently in the discovery phase.

In January 1998, a stockholder suit, purported to be a class action, was commenced against the Company, its directors (and certain former directors) and one non-director officer in the Delaware Chancery Court seeking, among other things, to invalidate certain portions of the Company's Stockholder Rights Plan, adopted in July 1997 (the "Rights Plan"), and to recover unspecified damages and attorneys' fees. The complaint alleges that certain provisions of the Rights Plan, particularly the so-called "Continuing Directors" provision, are not permitted under the Delaware General Corporate Law and the Company's Certificate of Incorporation. The Company believes that these allegations are without merit and that the Rights Plan was properly adopted and is valid in its entirety. The Company is reviewing its available alternatives with regard to responding to this action.

Item 4. Submission of Matters to a Vote of Securityholders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholders Matters

The Company's Common Stock has been quoted on the Nasdaq National Market since June 1994 under the symbol "WCII."

The following table sets forth, for the fiscal periods indicated, the high and low last sale prices of the Common Stock as reported on the Nasdaq National Market. The quotes represent "inter-dealer" prices without adjustment or mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

PERIOD ENDING	HIGH	LOW
March 31, 1996	$18 1/2	$13 3/8
June 30, 1996	32 1/4	16
September 30, 1996	29	15 3/4
December 31, 1996	23 7/8	16 1/2
March 31, 1997	20 1/4	11 5/8
June 30, 1997	14 5/8	10 1/8
September 30, 1997	19 3/16	14 1/4
December 31, 1997	29 1/4	21 1/4
January 1, 1998 through March 27, 1998	46 3/8	24 5/8

The last sale price of the Common Stock on March 27, 1998 was $44.75 per share. As of that date the Company had approximately 37,217,000 shares of Common Stock outstanding held by more than 1,000 beneficial holders.

The following securities were issued by the Company in unregistered transactions in the fourth quarter of 1997:

SECURITIES SOLD (DATE SOLD)	PURCHASERS	CONSIDERATION	EXEMPTION CLAIMED	TERMS OF CONVERSION OR EXERCISE	USE OF PROCEEDS
175,000 shares of Series C Preferred Stock	Certain Institutions	$175 million, less certain discounts and expenses	Rule 144(A)	Not applicable.	The proceeds of this issuance were/will be used for the MIDCOM Acquisition, Growth of the Company's business and working capital.
251,547 shares of Common Stock (Various dates from 10/1/97-12/31/97)	Various individuals and entities	Shares issued as consideration in various acquisitions	4 (2)	Not applicable.	The Company did not receive cash proceeds for these shares.

Item 6. Selected Financial Data

The financial data presented below has been derived from the Company's audited Consolidated Financial Statements. The data has been presented to reflect the operations of WinStar Global Products, Inc. ("Global Products"), the Company's merchandising subsidiary, as a discontinued operation.

	YEAR ENDED FEBRUARY 28,		TEN MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	
	1994	1995	1995	1996	1997
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statement of Operations Data:					
Net sales:					
Telecommunications	$ 8,505	$ 14,909	$ 13,137	$ 33,969	$ 38,277
Information services	—	473	2,648	14,650	41,354
Other	1,278	—	—	—	—
Total net sales	9,783	15,382	15,785	48,619	79,631
Operating income (loss):					
Telecommunications	(660)	(4,984)	(7,288)	(43,698)	(153,139)
Information services	—	(157)	217	(1,409)	(4,092)
Other	(272)	—	—	—	—
General corporate	(1,342)	(944)	(3,861)	(11,373)	(30,815)
Total operating loss	(2,274)	(6,085)	(10,932)	(56,480)	(188,046)
Interest expense	(724)	(375)	(7,186)	(36,748)	(77,257)
Interest income	109	343	2,890	10,515	17,577
Other (expenses) income, net (a)	(5,316)	(1,109)	(866)	—	4,719
Loss from continuing operations	(8,205)	(7,226)	(16,094)	(82,713)	(243,007)
(Loss) income from discontinued operations	10	(4)	237	(1,010)	(6,477)
Net loss	(8,195)	(7,230)	(15,857)	(83,723)	(249,484)
Preferred stock dividends	—	—	—	—	(5,879)
Net loss applicable to common stock	$(8,195)	$ (7,230)	$ (15,857)	$(83,723)	$(255,363)
Basic and diluted loss per share:					
Loss per common share from continuing operations	$ (1.06)	$ (0.42)	$ (0.71)	$ (2.96)	$ (7.49)
(Loss) income per common share from discontinued operations	—	—	0.01	(0.04)	(0.19)
Net loss per common share outstanding	$ (1.06)	$ (0.42)	$ (0.70)	$ (3.00)	$ (7.68)
Weighted average common shares outstanding	7,719	17,122	22,770	27,911	33,249

	FEBRUARY 28,		DECEMBER 31,		
	1994	1995	1995	1996	1997
			(IN THOUSANDS)		
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 646	$ 2,895	$ 211,602	$ 122,487	$ 419,262
Property and equipment, net	$ 951	$ 2,190	$ 15,063	$ 65,572	$ 284,835
Total assets	$ 12,713	$ 25,338	$ 278,226	$ 278,789	$ 976,401
Current portion of long-term debt and capital lease obligations	$ 1,790	$ 285	$ 5,275	$ 23,011	$ 7,234
Long-term debt and capital lease obligations, less current portion	$ 3,084	$ 2,389	$ 240,428	$ 276,007	$ 790,292
Exchangeable Redeemable Preferred Stock	$ —	$ —	$ —	$ —	$ 175,553
Common and preferred stock and additional paid-in capital(b)	$ 22,665	$ 43,518	$ 104,823	$ 75,726	$ 256,126
Stockholders' equity (deficit)	$ 3,547	$ 17,206	$ 21,752	$ (49,671)	$(118,392)

(Footnotes on next page)

(Footnotes from previous page)

(a) For the year ended February 28, 1994, principally represents non-cash expense of $5.3 million, consisting of the difference between the exercise prices of certain options granted in connection with the Company's initial public offering in April 1991 and the market value of the underlying shares of Common Stock on the date such options became exercisable. The year ended December 31, 1997 includes a deferred income tax benefit of $2.5 million.

(b) The Company did not declare or pay any dividends on its Common Stock during the periods covered hereby.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

The Company operates the following lines of business: (i) CLEC Services, including local and long distance voice and data telecommunications services to business customers, (ii) Carrier Services, including wireless broadband local access and dedicated network services to other telecommunications providers, and (iii) Information Services, including the provision of information products and services to the Company's telecommunications customers as well as the creation and distribution of information and entertainment products and services through a variety of traditional and new media outlets such as radio, television and the Internet. Residential Long Distance includes the resale of long distance services to residential customers. As part of its CLEC service offerings, however, the Company is focusing on the sale of long distance services to businesses and no longer markets Residential Long Distance services.

Revenues

Revenues generated by the Company's telecommunications businesses represent an increasing percentage of the Company's consolidated revenues as the Company expands its full range of voice and data telecommunications services into new markets. Factors driving the mix of revenues are as follows:

CLEC Services

Revenues from local and long distance products are driven primarily by the number of customer lines installed and in service. Customers generally are billed a flat monthly fee and/or a per-minute usage charge. Data services revenues generally are billed as a flat monthly charge for capacity ordered. Revenue growth depends upon the addition of new customers in existing markets, the sale of bundled services such as long distance, the expansion of markets served by the Company, and the introduction of new services, such as broadband data transmission and video conferencing services. Revenues from CLEC Services were approximately $10.2 million in the quarter ended December 31, 1997, versus $6.5 million in the quarter ended September 30, 1997, $4.0 million in the quarter ended June 30, 1997 and $2.0 million in the quarter ended March 31, 1997. The Company expects its CLEC Services revenues, including voice and data telecommunications services, to continue to increase as it expands its network and network utilization increases.

Carrier Services

Carrier Services revenues are driven primarily by the number and capacity (*i.e.*, T-1s or DS-3s) of Wireless Fiber links in service and sold to the Company's wholesale customers. The Company currently is focusing its wholesale selling activities on a select number of large carriers.

Residential Long Distance

The Company markets its long distance services as a part of its integrated telecommunications offerings, focusing on sales to business customers. As a result, the Company has allowed revenues from its Residential Long Distance service to decline through attrition as it focuses on its core business market and it expects this decline to continue.

Information Services

Information Services revenues are generated principally by: (i) sales of content and related services to traditional customers, such as cable networks and radio stations; (ii) sales to new media distribution channels, such as on-line services; (iii) advertising sales; and (iv) the bundling of content with the Company's telecommunications services. Revenues also are driven by the amount and quality of the Company's available program rights during each quarter and some seasonality of sales, which affect quarter-to-quarter comparability. The Company expects Information Services revenues to increase as the Company expands its information service offerings and increases cross-sales of such services to CLEC customers.

Costs

Factors relating to costs are as follows:

CLEC Services

Costs associated with the Company's CLEC business include significant up-front capital expenditures for development of the infrastructure required to provide facilities-based local exchange and data services, including expenditures relating to purchases and installation of switching equipment, radios, customer premise equipment and related site acquisition and installation costs. In addition, the Company is incurring start-up costs related to its CLEC business that will not be capitalized, including some costs of engineering, sales office and service personnel, marketing, administrative and other personnel, certain of whom will be needed in advance of related revenues. As the Company commences operations in a city, its cost of revenue percentage is greater as fixed costs are spread over less traffic. Margins on CLEC Services revenues are improved as traffic increases, and the fixed network costs are spread over a larger traffic base. Although the Company strives to carry all of its traffic over its own facilities, the Company will continue to carry certain amounts of its traffic over leased or resold facilities at lower margins. The resale of CLEC Services typically will result in lower operating margins than the provision of services over the Company's own facilities.

Carrier Services

The Company's Carrier Services business utilizes the same fixed wireless network which the Company is building for its CLEC Services business. Accordingly, as network utilization increases, the related cost of Carrier Services as a percentage of revenue decreases.

Residential Long Distance

Costs associated with the Company's residential long distance business include expenses related to minutes purchased from major carriers for resale, and accordingly fluctuate with revenue. Typically, reductions of such costs are achieved through negotiated volume rebates and competitive contract pricing.

Information Services

The Company's Information Services businesses have production, distribution and administrative costs. Film production costs include those related to producing original products and licensing third-party products and are capitalized as incurred and are expensed as productions are completed and distributed. Overhead costs in the production division are also capitalized and allocated to films in progress, and are subsequently expensed as such films are completed and distributed. Other media production costs are expensed as incurred. The distribution and advertising divisions incur royalty costs payable to third-party producers and selling costs, both of which vary directly with sales of acquired product, as well as administrative costs and personnel-related costs, which are primarily fixed in nature and which are expensed as incurred.

Results of Operations

Revenues of the Company's operating business lines are as follows (in millions):

	TEN MONTHS ENDED DECEMBER 31,(a)		YEAR ENDED DECEMBER 31,		
	1994	1995	1995	1996	1997
Telecommunications Services:					
CLEC Services	$ —	$ —	$ —	$ 0.5	$ 22.7
Carrier Services	—	0.1	0.1	3.9	7.1
Residential Long Distance	13.4	13.0	14.5	29.5	8.5
	13.4	13.1	14.6	33.9	38.3
Information Services	0.2	2.6	2.9	14.6	41.3
Total Revenues from Continuing Operations	$ 13.6	$ 15.7	$ 17.5	$ 48.6	$ 79.6

(a) The Company changed its fiscal year to December 31 from February 28 effective January 1, 1996.

The following discussion of results of operations does not include the results of operations of Global Products, which has been reclassified as a discontinued operation.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues from continuing operations increased by $31.0 million, or 64%, for the year ended December 31, 1997, to $79.6 million, from $48.6 million for the year ended December 31, 1996. This increase was attributable to increased revenues generated by the Company's CLEC, carrier services and information services businesses, partially offset by a decrease in residential long distance revenues.

Revenues from CLEC services, which include all commercial end user customer telecommunication revenues, were $22.7 million in the year ended December 31, 1997, and were minimal in the year ended December 31, 1996, as the CLEC business commenced operations in the second quarter of 1996. As of December 31, 1997, the CLEC business had installed 82,000 lines, up from 51,000 lines at September 30, 1997 and 4,400 at December 31, 1996. The annualized revenues from December 1997 for the CLEC business were approximately $46.2 million.

Revenues from carrier services increased $3.2 million to $7.1 million in the year ended December 31, 1997, as compared to $3.9 million in the year ended December 31, 1996. This increase resulted from the growing number of billed circuits, along with installation revenue and equipment sales related to contract services provided.

WinStar's residential long distance revenues decreased $21.0 million to $8.5 million in the year ended December 31, 1997, compared to $29.5 million in the year ended December 31, 1996. Such a decrease was expected and was the result of WinStar's focus on its core business of selling communications services to business customers and to other carriers.

Revenues from information services increased by $26.7 million, or 182%, in the year ended December 31, 1997, to $41.3 million, from $14.7 million in the year ended December 31, 1996, due to continued internal growth and acquisitions, including the Telebase online business service acquired earlier in 1997.

Cost of services and products increased by $42.8 million, or 112%, for the year ended December 31, 1997, to $81.0 million, from $38.2 million for the year ended December 31, 1996. As a percentage of sales, cost of services and products in the year ended December 31, 1997 was 102% compared with 79% in the year ended December 31, 1996, as a result of increasing network costs from the continued expansion of the Company's local telecommunications business.

Selling, general and administrative expense increased by $94.6 million to $157.0 million for the year ended December 31, 1997, from $62.4 million for the year ended December 31, 1996. The Company continued to hire sales, marketing and related support personnel in connection with the accelerated rollout of its CLEC operations, which had only 500 employees at December 31, 1996 and approximately 1,200 employees at December 31, 1997. In addition, the Company increased spending on related advertising and marketing of its CLEC services.

Depreciation and amortization expense increased by $25.2 million for the year ended December 31, 1997, to $29.7 million, from $4.5 million for the year ended December 31, 1996. This growth in expense resulted principally from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the year ended December 31, 1997 was $188.0 million, compared with an operating loss of $56.5 million for the year ended December 31, 1996.

Interest expense increased by $40.5 million, or 110%, for the year ended December 31, 1997, to $77.3 million, from $36.7 million for the year ended December 31, 1996. The increase was principally attributable to the Company's issuance of debt in 1997. Of the $77.3 million interest expense for the year, $53.5 million is not payable in cash until after 1999.

Interest income increased by $7.1 million, or 67%, for the year ended December 31, 1997, to $17.6 million, from $10.5 million for year ended December 31, 1996. The increase resulted from the additional interest income earned on the proceeds from the Company's issuance of debt and equity securities in 1997.

In 1997, the Company recognized dividends of $5.9 million on its placement of Series A and Series C Preferred Stock, which were paid in kind.

For the reasons noted above, the Company reported a net loss applicable to Common Stock of $255.4 million for the year ended December 31, 1997, compared to a net loss of $83.7 million for the year ended December 31, 1996.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Revenues from continuing operations increased by $31.1 million, or 178%, for the year ended December 31, 1996, to $48.6 million, from $17.5 million from the year ended December 31, 1995. This increase was primarily attributable to increased revenues generated by the Company's telecommunications and information services segments.

The Company's telecommunications services revenues increased by $19.3 million, or 132%, for the year ended December 31, 1996, to $33.9 million, from $14.6 million for the year ended December 31, 1995, principally resulting from an increase in revenues from residential long distance telephone services. Revenues from the information and entertainment services segment increased by $11.8 million, or 407%, for the year ended December 31, 1996, to $14.7 million, from $2.9 million for the year ended December 31, 1995, due to continued growth of this segment internally and through acquisitions. The revenue increase in 1996 was generated primarily from increased production and distribution of entertainment content, including documentaries, foreign films and multimedia sports programming.

Cost of services and products increased by $23.6 million, or 161%, for the year ended December 31, 1996, to $38.2 million, from $14.6 million for the year ended December 31, 1995. As a percentage of sales, cost of services and products in 1996 was 78%, compared with 83% in 1995, due in part to increased start-up costs for facilities in connection with the rollout of the Company's telecommunications network.

Selling, general and administrative expense increased by $47.6 million to $62.4 million for the year ended December 31. 1996, or 128% of revenues, from $14.8 million, or 85% of revenues, for the year ended December 31, 1995. Selling, general and administrative expense increased predominantly in the telecommunications segment as the Company continued to hire sales, marketing and related support personnel in connection with the accelerated rollout of its CLEC operations, and increased spending on related advertising and marketing of services in new and existing cities where the Company offered its services.

Depreciation and amortization expense increased by $3.5 million, or approximately 350%, for the year ended December 31, 1996, to $4.5 million, from $1.0 million for the year ended December 31, 1995, principally resulting from the Company's acquisition of switches, radios and other telecommunications equipment.

For the reasons noted above, the operating loss for the year ended December 31, 1996, was $56.5 million, compared to an operating loss of $12.9 million for the year ended December 31, 1995.

Interest expense increased by $29.5 million, or approximately 410%, for the year ended December 31, 1996, to $36.7 million, from $7.2 million for the year ended December 31, 1995. The increase was primarily attributable to $33.5 million in interest accrued on the 1995 Notes issued in the 1995 Debt Placement, which is not payable in cash until after 1999.

Interest income increased by $7.6 million, or approximately 262%, for the year ended December 31, 1996, to $10.5 million, from $2.9 million for the year ended December 31, 1995. The increase is attributable to short-term investment earnings on the proceeds of the 1995 Debt Placement.

For the reasons noted above, the Company reported a net loss of $83.7 million for the year ended December 31, 1996, compared to a net loss of $18.2 million for the year ended December 31, 1995.